Victoria University of Bangladesh

Final Assessment

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BBA Program.

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Answer to the question No: 1

Money : Anything is Money, which is generally acceptable as a medium of exchange, and at the same time it must act as a measure and a store of value. Anything implies a thing to be used as money need not be necessarily composed of any precious metal. The only necessary condition is that, it should be universally accepted by people as a medium of exchange.

Functions of money : Money performs five important functions:-

1. **Medium of exchange** : Money acts as a medium of exchange as it's generally accepted. On the payment of money, purchage of goods and service can be made. goods and services are exchanged for money. Money

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bifurcates buying and selling activites separately so it facialitates the exchange of transaction.

2. Measure of value: Money is a common measure of value. so it is possible to determine the rate of exchange between various goods and services purchased by the people. Exchange value of commodity can be expressed in terms of money. For example we can say that 10 meters of cotton cloth cost 2200₹ or 20000 Rs Only.

3. Store of value: Money acts as a store of value. Money being generally acceptable and its value being more or less stable, it is ideal use as a store of value. Being non perishable and also comparatively stable in value. The value of other assets can be stored in the form of money. property can be sold and its value can be held in money and converted into other assets as and when necessary.

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4. Standard or Defferred payment :

Money is also inevitably used as the unit in terms of which all future or deferred payment are stated. Future transactions can be carried of in terms of money. The loans which are taken at present, can be repaid money in the future. the value of the future payment is regulated by money.

5. Transfer of value : Value of any asset can be transferred from one person to another or to any institution or to any place by transferring money. the transfer of money can take place irrespetive of places, by transfering money, times and circumstances. Transfer or purchasing power, which is necessary in commerce and other transactions has become available because of money.

Answer to the question No : 2

Demand for Money : The demand for money is the total amount of money that the population of an economy wants to hold. Money is the most liquid of all assets in the sense that it is universally acceptable and hence can be exchanged for other commodities very easily. Money is held by the public because of its liquidity power. Money can be first used to buy anything wheres other assets are to be first converted into money to buy goods and service.

classical theory of Money : ~~ela~~ Classical economist emphasized the transaction demand for money because according to classical + economist money acts as a medium for exchange of goods and services in fisher's equation of Exchange.

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$$MV = PT \quad \text{where}$$

M = the total quantity or supply of money
V = Velocity of money
P = The price level
T = Total amount of goods and services.

The right hand side of the equation PT represents the demand for money, which in turn depends upon the value of transactions to be undertaken in the economy. And MV represents the supply of money which is given and is in equilibrium equals the demand for money. Thus the equation becomes.

$$Md = PT$$
$$Ms = MV$$

In the end of classical theory of demand for money may be summerized as under;

1. Money acts as a medium of exchange
2. Velocity of money is consistance
3. The people hold a constant fraction of, their nominal income for transaction and precaution motives,
4. Quantity of money demanded is directly related to the price level.

Answer to the question No : 6

Financial Investment : Investment made in buying financial instruments such as new shares, bonds, securities, etc. is considered as a financial investment. However, the money used for purchasing existing financial instrument such as old bonds, old shares, etc.. can not be considered as financial investment. It is a mere transfer of a financial asset from one individual to another.

Demand-pull Inflation : Demand-pull inflation occurs when there is an increase in aggregate demand, categorized by the four section of macro economy: households, businesses, government and foreign buyers. When these four sectors concurrently want to purchase more output than the economy can produce, they compete to purchase limited amounts of goods and services.

Cost-push inflation: Aggregate Supply is the total volume of goods and services produced by an economy at a given price level. When there is a decrease in the aggregate ~~have~~ ~~cost-push inflation~~ supply of goods and services streaming from an increase in the cost of production, we have cost push inflation. Cost-push inflation basically means the prices have been "pushed up" by increases in costs of any of the four factor of production (labor, capital, land or entrepreneurship) when companies are already running at full production capacity.

Money Market Equilibrium: Money Market is in equilibrium when demand for money and supply of money are equal. To simplify the analysis we take two sector model.

Assumptions:

i. Closed Economy

ii. No government spending or taxes.

iii. The financial market is confined to only money transactions and other form of income earning assets.

Answer to the question No 5.

Inflation : It is a steady an upward movement in the level of prices, decreasing purchasing power over a period of time, usually one year. Inflation can be defined as a continuous increase in the general price level of goods and services in the economy.

Measures of Inflation : ~~In India~~, Inflation is measured by using WPI (Wholesale price Index). An index of several goods and services is prepared. WPI is a weighted index of 435 commodities; It means price rise of all commodities will not be treated equally.

Example : The price rise of rice will have more weight-age than a price rise of a car. That is because rice is consumed by a large number of people as compared to a car.

In USA, UK, China CPI (consumer price index) is used to measure inflation.

Types of Inflation :

1. On the basis of rate of inflation.

a) **Open Inflation** : In a free market economy, price go up freely due to supply of demand imbalance leading to open inflation. It is not checked by government. Since market is allowed to function without interference, It is called open inflation.

b) **Suppressed inflation** : On the other hand suppressed inflation occurs in a controlled economy where the upward pressure on prices is not allowed to influence the quoted or managed prices.

2. On the basis of degree of control

a) **Creeping Inflation** : There is moderate rise in prices of 2-3 percent per annum in creeping inflation. It is generally considered good for a growing economy.

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b) **Walking Inflation**: When price increase over a decade between 30-40 percent of at the rate of 3-4 percent per annum that inflation is also known as walking inflation.

c) **Running inflation**: involves more accelerated movements in prices then in case of either creeping or walking. When price are rising at the rate of about 10 percent per annum or about 100 percent in a decade, it may be treated as a state of running inflation.

d) **Hyper Inflation**: In these types of Inflation price rice at double or triple digit rates per annum. Hyper inflation is extreme form of inflation. It seriously cripples the economy.

When there is no control over running inflation, then the situation comes under hyper inflation.

3. On the basis of Degree of causes

a) Cost-push inflation : Aggregate Supply is the total volume of goods and services produced by an economy at a given price level. When there is a decrease in the aggregate supply of goods and services streaming from an increase of the cost of production, we have cost-push inflation.

b) Demand-pull inflation : Demand-pull inflation occurs when there is an increase in aggregate demand, categorized by the four section sections of the macro economy : households, business governments and ~~and~~ foreign buyers. When four sector concurrently want to purchase more output than the the economy can produce, they compete to purchase more than the economy can produce, they complete to purchase limited amounts of goods and services