

THE INSTITUTE OF BANKERS PAKISTAN
ISQ Examination (Winter-2010)
MACRO ECONOMICS AND FINANCIAL SYSTEM OF PAKISTAN

Q.1 State True or False in the answer column.

Q.2 Please write the alphabet of the selected answer in the given space

Q.3 A) In an economy, the three goods are produced. Price/Quantities for 2008, 2009 and 2010 are given hereunder. 2008 is to be considered as base year:

	Quantities	Price (2008)	Price (2009)	Price (2010)
A	Food 450 kg	Rs.25 per kg	Rs.30 per kg	Rs.40 per kg
B	Clothing 100 pairs	Rs.250 per pair	Rs.400 per pair	Rs.450 per pair
C	Housing 4 units	Rs.25,000 per unit	Rs.40,000 per unit	Rs.55,000 per unit

- i) Find CPIs for 2009 and 2010.
- ii) Calculate inflation for 2010.

B) In an economy, the commercial banking system has the following balance sheet:

<u>Assets (in billion Rs.)</u>		<u>Liabilities (in billion Rs.)</u>	
Reserves	40	Demand Deposit	200
Loans	80	Capital Stock	120
Securities	100		
Fixed Assets	100		
	320		320

The Required Reserve Ratio is 12.5%.

Based on the above balance sheet, answer the following questions:

- i) What is maximum amount by which the commercial banking system can expand the supply of money? Show all calculations.
- ii) If a deposit of Rs.20 billion of new currency is made into chequing accounts in the banking system, by how much amount the excess reserves shall increase. Show all calculations.

Q.4 Owners of two leading export houses were commenting on SBP's recent decision of raising export-refinance rate.

Mr. A SBP has increased the export refinance rate by half a percentage point to eight percent from April 1. The Banks shall now charge nine percent interest on export financing by adding their own margin of one percent. This would add to problems for export houses.

Mr. B SBP is pursuing a policy to gradually withdraw subsidies on mark-up rates. So the rate increase may be seen in this perspective. It is a question more of a policy than exception.

Mr. A You know countries like China, India and Bangladesh provide interest rate subsidies. The subsidies in Pakistan would help our exporters to compete with them in international market. Moreover, the subsidy may compensate exporters for additional input costs being incurred by industries due to electricity and gas load shedding and inefficiencies in the system.

Mr. B The best option is to re-align the subsidies for the time being by shifting them gradually from less-efficient traditional export sector to most efficient non-traditional export sectors.

Mr. A Our competition in world market provide subsidies while our input cost are high; there is a strong case for subsidy in mark-up for export-based industrial sector.

A) What are the arguments for and against withdrawal of subsidies on mark-up?

B) Would you support re-aligning the mark-up subsidies to efficient non-traditional sector? Explain with justification.

Q.5 (A) Does fiscal deficit necessarily lead to inflation?

(B) Is growing domestic debt a problem for a Government in the same way as it is for the household raising debt for meeting emergent consumption needs.

Q.6 A) Is Central Bank more effective in fighting recession or inflation? Why?

B) What relationship is explained by the Phillips curve between inflation and unemployment? Why these relationships do not hold in the long-run?

Q.7 A) Discuss the factors which determine the supply and demand of loanable funds in a financial system.

B) How does a financial system transform and distribute risk in an economy?

- Q.8** **A)** **“Flexible exchange rates automatically adjust and eliminate Balance Payment deficits or surpluses”. Do you agree? Why?**
- B)** **What problems are associated with shallow finance in financial system?**
- Q.9** **A)** **Discuss the need and scope of “development banking” for LDCs.**
- B)** **Is economic growth enough to reduce absolute poverty?**
