58. State and explain the component of money supply in Bangladesh?

Economics defines money supply as the total assets of stock that is accepted as an exchange media at a given time in an economy. Money supply has a standardized representation with three monetary components which has been delineated as M0, M1 and M2.

The M0 component comprises of the currency which is in the hands of the public, the statutory deposits of the banks held by the central bank and itscash reserves. This component represents central bank's monetary liabilities. The M0 is, thus, generally referred to as the reserve money or monetary base of the economy. The next standard component, M1 includes the currency that is present outside the banking system and the transaction currency of the commercial bank current account liabilities. This component may include foreign currency deposits which are needed in domestic transactions.

The M2 component of money supply tries to expand the liquid assets range to add up few interest earning items like fixed deposits, saving deposits or time deposits. This is a broad component of money supply and takes into account M1, short term savings, deposit certificates, transferable foreign currency deposits as well as repurchase agreements. Some countries have extended the broad component of money supply beyond M2.

The M0, M1 and M2 are considered the primary money supply components or monetary aggregates which satisfy the liquidity criteria. However, there can be other cases where the broader measurements are required. For example, when there are less liquid financial assets, M3 and M4 components are taken into account.

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59. Why does government borrow?

There are many different reasons for government borrowing

- **Tax revenues are less than predicted**. Borrowing means the government can meet a temporary shortfall by borrowing, rather than having to immediately cut back on spending. Like an overdraft facility, government borrowing gives the government more flexibility and means they can maintain wages and spending commitments without having to keep cutting spending.
- **Automatic fiscal stabilizers**. In a recession, government tax revenues fall (e.g. people earn less so pay less income tax). Also the government has to spend more on unemployment benefits. Therefore, in an economic downturn, borrowing rises. To eliminate borrowing in a recession would make the recession worse and increase inequality. If the government couldn't borrow in a recession, the unemployed may not get any benefits and have no income.
- **Investment.** The government may invest in public sector investment. For example, building schools, hospitals, better roads. This investment can give a return on the investment which helps to boost productive capacity and increase economic growth. In this case, the government is acting like a firm who takes out a loan to finance investment.
- **Political**. The biggest tendency to borrow comes from political pressures. Voters generally like to hear the promise of lower taxes and increasing spending. A manifesto to tackle a budget deficit (higher taxes and lower spending) is unlikely to be popular. Voters often are supportive of the general idea of reducing government debt, but when it comes to actual policies like lower benefits, higher pension age, increased VAT rate, then it is likely to hit some particular pressure group with a vested interest in maintaining low tax and spending.
- **War**. During a war, government spending is stretched leading to higher borrowing. The highest rates of borrowing occurred during the two world wars. Also, during wars, it may be easier to sell bonds as you can play the patriotic card to encourage people to finance government borrowing.
- **It's Cheap**. Governments like the UK can usually borrow at very low interest rates, especially during an economic downturn. This is because people have confidence government bonds are secure and so are willing to lend at low interest rates.
- **Economic Growth tends to reduce real debt burden**. In the early 1950s, UK public sector debt was over 200% of GDP. However, over next few decades, economic growth helped to reduce the burden of debt. Assuming constant economic growth of 3% a year, the government can borrow more, but maintain the same % of tax revenue on interest payments

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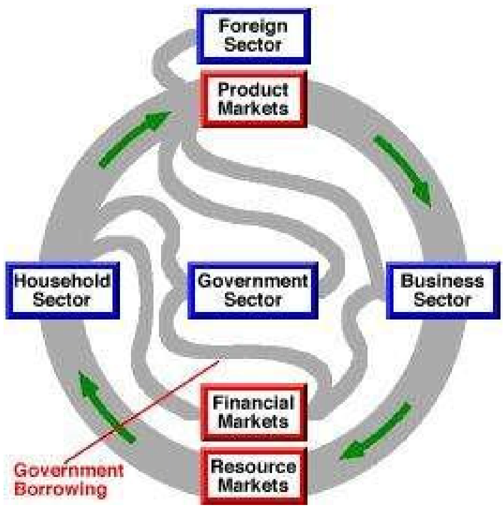
60. Disucss the domestic sources of government borrowing in Bangladesh and their likely effect on the economy?

The acquisition of funds through the financial markets by the government sector which are used to finance government expenditures. In terms of the simple circular flow model, this is one of two basic demands for household saving diverted into financial markets. The other is investment borrowing. Government borrowing is also one of two methods of financing government expenditures. The other is taxes.

Government borrowing is one of two sources of funds used by the government to pay for government expenditures. The primary source of financing comes from taxes. Government borrowing is necessary when the government sector spends more than it collects in taxes.

Government borrowing by the
Government borrowing by the government sector can be illustrated with the circular flowmodel. The circular flow captures the continuous movement of production, consumption, income, and factor payments between producers and consumers.

The Circular Flow



The household sector at the far left contains the consuming population of the economy. The business sector at the far right includes all of the producers. The government sector is positioned in the middle of the diagram and the foreign sector is at the very top.

The product markets near the top of the flow direct production from the business sector to the household sector in exchange for payment flowing in the opposite direction. The resource market s at the bottom of the flow direct factor services from the household sector to the business sector in exchange for payment flowing in the opposite direction. The financial markets located just above the resource markets divert saving from the household sector to business and government borrowing.

There are some economic risks associated with a high level of government borrowing:

- If the economy has only a small supply of savings, increased government borrowing may force up interest rates and crowd out private sector investment
- Higher borrowing in the long-run requires an increase in the tax burden - this may dampen demand and economic growth
- If the national debt increases, annual interest payments on the debt goes up - money that might have been spent in priority areas

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61. Economics is the study of mankind in the ordinary business of life-discuss?

Political economy or economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.

Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. For man's character has been molded by his every-day work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals; and the two great forming agencies of the world's history have been the religious and the economic. Here and there the ardour of the military or the artistic spirit has been for a while predominant: but religious and economic influences have nowhere been displaced from the front rank even for a time; and they have nearly always been more important than all others put together. Religious motives are more intense than economic, but their direct action seldom extends over so large a part of life. For the business by which a person earns his livelihood generally fills his thoughts during by far the greater part of those hours in which his mind is at its best; during them his character is being formed by the way in which he uses his faculties in his work, by the thoughts and the feelings which it suggests, and by his relations to his associates in work, his employers or his employee.

And very often the influence exerted on a person's character by the amount of his income is hardly less, if it is less, than that exerted by the way in which it is earned. It may make little difference to the fullness of life of a family whether its yearly income is £1000 or £5000; but it makes a very great difference whether the income is £30 or £150: for with £150 the family has, with £30 it has not, the material conditions of a complete life. It is true that in religion, in the family affections and in friendship, even the poor may find scope for many of those faculties which are the source of the highest happiness. But the conditions which surround extreme poverty, especially in densely crowded places, tend to deaden the higher faculties. Those who have been called the Residuum of our large towns have little opportunity for friendship; they know nothing of the decencies and the quiet, and very little even of the unity of family life; and religion often fails to reach them. No doubt their physical, mental, and moral ill-health is partly due to other causes than poverty: but this is the chief cause.

And, in addition to the Residuum, there are vast numbers of people both in town and country who are brought up with insufficient food, clothing, and house-room; whose education is broken off early in order that they may go to work for wages; who thenceforth are engaged during long hours in exhausting toil with imperfectly nourished bodies, and have therefore no chance of developing their higher mental faculties. Their life is not necessarily unhealthy or unhappy. Rejoicing in their affections towards God and man, and perhaps even possessing some natural refinement of feeling, they may lead lives that are far less incomplete than those of many, who have more material wealth. But, for all that, their poverty is a great and almost unmixed evil to them. Even when they are well, their weariness often amounts to pain, while their pleasures are few; and when sickness comes, the suffering caused by poverty increases tenfold. And, though a contented spirit may go far towards reconciling them to these evils, there are others to which it ought not to reconcile them. Overworked and undertaught, weary and careworn, without quiet and without leisure, they have no chance of making the best of their mental faculties.

Although then some of the evils which commonly go with poverty are not its necessary consequences; yet, broadly speaking, "the destruction of the poor is their poverty," and the study of the causes of poverty is the study of the causes of the degradation of a large part of mankind.

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62. Why is it important for a banker to know the basic principles of economics?

Economics is the study of how businesses and countries operate and react to situations. There are numerous basic economic concepts that is important for a banker. This important things are given below----
Supply and Demand

This is the cornerstone of studying economics and is an easy way to work out the trade-offs between production of an item and its cost. If demand for a product or service is high, then the supply of a product or service is high and vice versa.

Economies of Scale

Economies of scale are a business term used to demonstrate the cheapest way of producing something.

Microeconomics

Microeconomics is the study of how individuals and specific industries react to economic conditions.

Macroeconomics

Macroeconomics is the study of the economic system as a whole.

Inflation

The amount the price of a product goes up each year. Most governments try to keep inflation at around the two percent mark. This means the price of a product will go up two percent every year.

Interest Rates

Interest rates are normally set either by the government or by a national bank and are the amount of extra money in percentage terms people give back on loans or receive for saving money. It is one of the few economic tools that a government can use to move the economy.

Price Index

There are two main types of price index, the retail and the consumer. These both show how much the average basket of goods costs a consumer.

Economic Growth

This is the statistic most thrown around on the news, as it is the simplest idea to get your head around. Growth or Gross Domestic Product (GDP) is a measure of how much money is spent in the country

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