15. How monetary policy can be used to control inflation?

Monetary policy, to a great extent, is the management of expectations.[4] Monetary policy rests on the relationship between the rates of interest in an economy, that is, the price at which money can be borrowed, and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals). The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard.

A policy is referred to as contractionary if it reduces the size of the money supply or increases it only slowly, or if it raises the interest rate. An expansionary policy increases the size of the money supply more rapidly, or decreases the interest rate. Furthermore, monetary policies are described as follows: accommodative, if the interest rate set by the central monetary authority is intended to create economic growth; neutral, if it is intended neither to create growth nor combat inflation; or tight if intended to reduce inflation.

There are several monetary policy tools available to achieve these ends: increasing interest rates by fiat; reducing the monetary base; and increasing reserve requirements. All have the effect of contracting the money supply; and, if reversed, expand the money supply. Since the 1970s, monetary policy has generally been formed separately from fiscal policy. Even prior to the 1970s, the Bretton Woods system still ensured that most nations would form the two policies separately.

Within almost all modern nations, special institutions (such as the Federal Reserve System in the United States, the Bank of England, the European Central Bank, the People's Bank of China, the Reserve Bank of New Zealand, and the Bank of Japan) exist which have the task of executing the monetary policy and often independently of the executive. In general, these institutions are called central banks and often have other responsibilities such as supervising the smooth operation of the financial system.

The primary tool of monetary policy is open market operations. This entails managing the quantity of money in circulation through the buying and selling of various financial instruments, such as treasury bills, company bonds, or foreign currencies.

Usually, the short term goal of open market operations is to achieve a specific short term interest rate target. In other instances, monetary policy might instead entail the targeting of a specific exchange rate relative to some foreign currency or else relative to gold.

The other primary means of conducting monetary policy include: (i) Discount window lending (lender of last resort); (ii) Fractional deposit lending (changes in the reserve requirement); (iii) Moral suasion (cajoling certain market players to achieve specified outcomes); (iv) "Open Mouth Operations" (talking monetary policy with the market).

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16. Distinguish between balance of Trade and balance of payment?

Basis of Difference	Balance of Trade (BOT)	Balance of Payment (BOP)
1. Definition	Balance of trade may be defined as difference between export and import of goods and services.	Balance of payment is flow of cash between domestic country and all other foreign countries. It includes not only import and export of goods and services but also includes financial capital transfer.
2. Formula	BOT = Net Earning on Export - Net payment for imports	BOP = BOT + (Net Earning on foreign investment - payment made to foreign investors) + Cash Transfer + Capital Account +or - Balancing Item or BOP = Current Account + Capital Account + or - Balancing item (Errors and omissions)
3. Favourable or Unfavourable	If export is more than import, at that time, BOT will be favourable. If import is more than export, at that time, BOT will be unfavourable.	Balance of Payment will be favourable, if you have surplus in current account for paying your all past loans in your capital account. Balance of payment will be unfavourable, if you have current account deficit and you took more loan from foreigners. After this, you have to pay high interest on extra loan and this will make your BOP unfavourable.
4. Solution of Unfavorable Problem	To Buy goods and services from domestic country.	To stop taking of loan from foreign countries.
5. Factors	Following are main factors which affect BOT a) cost of production b) availability of raw materials c) Exchange rate d) Prices of goods manufactured at home	Following are main factors which affect BOP a) Conditions of foreign lenders. b) Economic policy of Govt. c) all the factors of BOT
6. Meaning of Debit and Credit	If you see RBI' Overall balance of payment report, it shows debit and credit of current account. Credit means total export of different goods and services and debit means total import of goods and services in current account.	Credit means to receipt and earning both current and capital account and debit means total outflow of cash both current and capital account and difference between debit and credit will be net balance of payment.

17. What measures would you suggest to solve the problem of balance of payment deficit in BD?

A country's balance of payments reflects its net earnings on trade in goods and services with other countries. A positive balance of payments situation, or a surplus, comes about when a country exports more than it imports. A deficit situation arises when a country imports more than it exports. Governments manage their balance of payments situations in accordance with their larger goals for the economy.

Increased Exports

- One way of reducing a balance of payments deficit situation is to export more to other countries. For instance, in July 2010, the U.S. goods and services deficit went down to $42.8 billion, from $49.8 billion in June 2010. This came about as the country's exports rose to $153.3 billion in July, from $104.9 billion in June 2010. As the global recession abated, there was more demand for U.S. exports in other countries and this led to the rise in exports, according to the U.S. Census Bureau.

Decreased Imports

- Another way of reducing a balance of payments deficit is to import less from other countries. In July 2010, U.S. imports decreased to $196.1 billion, from $200.3 billion in June 2010, according to the U.S. Census Bureau. A slow U.S. recovery from the recession of 2007 meant that U.S. consumers were consuming fewer goods, including imported goods. This too causes a country's balance of payments deficit to go down.

Government Policy

- Another factor that impacts a country's balance of payments situation is trade policies relating to specific countries. If a country has a protectionist trade policy, it has various ways of making imports more expensive. For instance, a government could levy a tax or tariff on imported goods. This makes the goods more expensive to its citizens who might then opt to buy local goods over the more expensive imported goods. This tends to reduce a country's balance of payments deficit. Countries also have various mutual trade agreements with other countries, whereby they could give preferred treatment to each other's products for import purposes. Such government policies impact a country's balance of payments situation

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18. what do you mean by positive economics and normative economics? Indicate their differences.

Positive economics

The study of economics based on objective analysis. Most economists today focus on positive economic analysis, which uses what is and what has been occurring in an economy as the basis for any statements about the future. Positive economics stands in contrast to normative economics, which uses value judgments.
For example, a positive economic statement would be: "Increasing the interest rate will encourage people to save." This is considered a positive economic statement because it does not contain value judgments and its accuracy can be tested.

Normative economics

A perspective on economics that incorporates subjectivity within its analyses. It is the study or presentation of "what ought to be" rather than what actually is. Normative economics deals heavily in value judgments and theoretical scenarios. It is the opposite of positive economics. Normative statements are often heard in the media because they tend to represent a theory or opinion rather than objective analysis. Normative economics is a valuable way to establish goals and generate new ideas, but it should not be used as a basis for policy decisions.
An example of a normative economic statement would be, "We should cut taxes in half to increase disposable income levels"

The difference between positive economics and normative economics are --------

Positive economics	Normative economics
Positive economics deals with what is while	Normative economics deals with what should be.
Positive economics deals with facts	Normative economics deals with opinions on what a desirable economy should be.
Positive economics is also called descriptive economics	Normative economics is called policy economics.
Positive economic statements can be tested using scientific methods	Normative economics cannot be tested.
There is no relation of ethics here.	It is based on ethics and values.
Positive economics depends upon real experience and observation.	The subject of normative economics is related to development.
Positive economics based on real evidence.	Normative economics describes about good or bad

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19. Explain the relationship of economics with (i) statistics and (ii) sociology?

Statistics:

Econometrics can be defined as the study in which the tools of economic theory, statistical inference and mathematics are systematically applied, using observed data, to the analysis of economic laws. It is therefore concerned with the "empirical determination of economic laws. Economic theories are written in mathematical form and are then analyzed using statistical methods. If the observed data are found to be incompatible with the predictions of the theory, it is rejected. Theories are accepted if the data are found to fit the theory."Econometrics is a branch of economics that applies statistical methods to the empirical study of economic theories and relationships. It is as a form of mathematical economics.

Economists base most theories and policies on statistics stats are a vital part of economics. Economics study trends and patterns based on stats used in economics: mean f tests, t tests, and regressions, confidence intervals stats are used to measure growth rates, inflation, and any relationship between two variables (regressions)

Sociology:

Sociology and Economics as social sciences have close relations. Relationship between the two is so close that one is often treated as the branch of the other, because society is greatly influenced by economic factors, and economic processes are largely determined by the environment of the society.

Economics deals with the economic activities of man. It deals with production, consumption and distribution of wealth. The economic factors play a vital role in the very aspect of our social life. Total development of individual depends very much on economic factors. Without economic conditions, the study of society is quite impossible. All the social problems are directly connected with the economic conditions of the people.

In the same way Economics is influenced by Sociology. Without the social background the study of Economics is quite impossible. Sociologists have contributed to the study of different aspects of economic organization. Property system, division of labour, occupations etc. are provided by a sociologist to an economist.

The area of co-operation between Sociology and Economics is widening. Economists are more and more making use of the sociological concepts in the study of economic problems. Economists are working with the sociologists in their study of the problems of economic development in underdeveloped countries. Combined efforts of both the experts may be of great practical help in meeting the challenges.

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