31. What does production means in economics?

The production of final goods and services taking place during a given time period. The emphasis here is on time period, especially the CURRENT time period. Gross domestic product is the macroeconomy's prime measure of current production. Current production is best contrasted with transactions for past production and future production, both of which are excluded from gross domestic product.

6(b) what is meant by fixed cost and variable cost and show the correct position of total cost, total fixed cost and total variable cost curve in a diagram.

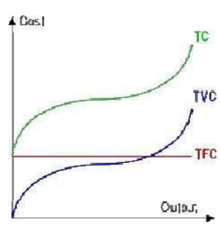
A cost that does not change with an increase or decrease in the amount of goods or services produced. Fixed costs are expenses that have to be paid by a company, independent of any business activity. It is one of the two components of the total cost of a good or service, along with variable cost.

An example of a fixed cost would be a company's lease on a building. If a company has to pay $10,000 each month to cover the cost of the lease but does not manufacture anything during the month, the lease payment is still due in full.

A corporate expense that varies with production output. Variable costs are those costs that vary depending on a company's production volume; they rise as production increases and fall as production decreases. Variable costs differ from fixed costs such as rent, advertising, insurance and office supplies, which tend to remain the same regardless of production output. Fixed costs and variable costs comprise total cost.

Variable costs can include direct material costs or direct labor costs necessary to complete a certain project. For example, a company may have variable costs associated with the packaging of one of its products. As the company moves more of this product, the costs for packaging will increase

Total cost, Total fixed cost, total variable cost

1. 

This graph shows the relationship between fixed, variable, and total cost with a production function that first has increasing and then decreasing marginal productivity.

As stated earlier, total cost can be broken down into total fixed cost and total variable cost. The graph of total fixed cost is simply a horizontal line since total fixed cost is constant and not dependent on output quantity. Variable cost, on the other hand, is an increasing function in quantity and has a similar shape to the total cost curve, which is a result of the fact that total fixed cost and total variable cost have to add to total cost. The graph for total variable cost starts at the origin because the variable cost of producing zero units of output, by definition, is zero.

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32. What is inflation and why does it occur?

Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every dollar you own buys a smaller percentage of a good or service.

The value of a dollar does not stay constant when there is inflation. The value of a dollar is observed in terms of purchasing power, which is the real, tangible goods that money can buy. When inflation goes up, there is a decline in the purchasing power of money.

In terms of economics, inflation can be defined as the rise in the prices (general level) of services and goods in an economy over a certain period of time. In earlier days, the term inflation was used to refer the increases in supply of money, but these days the "inflation" is purely used to refer the increase in levels of prices.

On the other hand inflation can also be defined as decrease in the value of money (or loss of the purchasing power in some medium of the commodity exchange). Most accurate measure of the inflation is known as "inflation rate". Inflation rate is defined as percentage change in the price index over a certain period of time.

In most simple words, you can conclude that inflation occurs in an economy when the net demand for services and goods exceeds the total supply. Now, because of less supply, the net prices of these services/goods increases and this kind of situation is known as inflation.

33. Account for the recent increase in the inflationary pressure in Bangladesh and find remedies?

In recent months, we see several opinion pieces on the various aspects of inflation in Bangladesh. Inflationary pressure has been increasing again in recent months. The latest figure shows a 7.41 percent inflation in November. Fuel import, energy price hike and Taka's devaluation against the US dollar have combined to increase Bangladesh's non-food inflation. Food inflation has also increased, although not by the same amount.

The country's general inflation has also been in double digits for some time now. The last time it happened was in the early 1980s. In addition to price hike of electricity and fuel oils, and devaluation of taka, the rise in government's spending and credit growth in both public and private sectors have also contributed to the rise in inflation.

Prices of a number of essential food commodities have also increased in recent months. However, despite the best of intention of the Ministry of Food, the retail prices of food grains in the local market have increased significantly in recent months and are likely to increase further until the next harvest. This raises concerns about economic stability and food insecurity as the purchasing power of low-income families has been reduced.

Last year, the International Monetary Fund (IMF) had asked the Bangladesh Bank to tighten monetary policy to contain inflation. The IMF recommended, among other measures, safeguarding reserves through continued exchange rate flexibility and interventions only to smooth short-term volatility, and addressing financial sector vulnerabilities by strengthening and enforcing bank supervisory framework and market oversight and ensuring sound governance.

Over the last few months, the Bangladesh Bank has followed a restrictive monetary policy by raising rates on a number of occasions. The Bank has also increased statutory liquidity ratio and cash reserve requirement in an effort to keep inflation in check.

However, the problem with such an effort is that these policy measures would be adequate if only excess demand were driving inflation. Inflation caused by changes on the supply side of the market would remain mostly unaffected by the policies recommended by the IMF and undertaken by the Bangladesh Bank.

A look at the causes of inflation would show that in recent months changes the supply side has been as much of a factor in raising the inflation rate as changes in the demand side. In short, inflation in Bangladesh has been both a cost-push and demand-pull phenomena.

Rapid increase in the prices of food items eroded the purchasing power as well as standard of living of the poor, government and non-government employees, industrial workers, the unemployed and the people with limited income. This has forced a section of the population to drop below the poverty line.

Remedies of inflation:

1. REDUCE DEMAND PRESSURES

If inflation is caused by high demand then

* Raise interest rates to reduce consumers disposable incomes
* Raise interest rates to discourage borrowing and demand
* Raise taxes to reduce disposable income and spending
* These policies should all reduce peoples ability to spend too much money

2 REDUCE COST PUSH PRESSURES

If inflation is caused by high costs

• Limit wage increases if possible e.g. public sector workers
• Force electricity and gas companies to hold their prices
• Increase the value of £ in order to reduce the cost of importing

3. REDUCE MONEY SUPPLY PRESSURES

If inflation is caused by too much money in the economy

• Print less money
• Withdraw some money from circulation.

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34. How does Foreign Direct Investment (FDI) help accelerates a country's economic development?

One of the advantages of foreign direct investment is that it helps in the economic development of the particular country where the investment is being made.

This is especially applicable for the economically developing countries. During the decade of the 90s foreign direct investment was one of the major external sources of financing for most of the countries that were growing from an economic perspective. It has also been observed that foreign direct investment has helped several countries when they have faced economic hardships.

An example of this could be seen in some countries of the East Asian region. It was observed during the financial problems of 1997-98 that the amount of foreign direct investment made in these countries was pretty steady. The other forms of cash inflows in a country like debt flows and portfolio equity had suffered major setbacks. Similar observations have been made in Latin America in the 1980s and in Mexico in 1994-95.

Foreign direct investment also permits the transfer of technologies. This is done basically in the way of provision of capital inputs. The importance of this factor lies in the fact that this transfer of technologies cannot be accomplished by way oftrading of goods and services as well as investment of financial resources. It also assists in the promotion of the competition within the local input market of a country.

The countries that get foreign direct investment from another country can also develop the human capital resources by getting their employees to receive training on the operations of a particular business. The profits that are generated by the foreign direct investments that are made in that country can be used for the purpose of making contributions to the revenues of corporate taxes of the recipient country.

Foreign direct investment helps in the creation of new jobs in a particular country. It also helps in increasing the salaries of the workers. This enables them to get access to a better lifestyle and more facilities in life. It has normally been observed that foreign direct investment allows for the development of the manufacturing sector of the recipient country.

Foreign direct investment can also bring in advanced technology and skill set in a country. There is also some scope for new research activities being undertaken.

Foreign direct investment assists in increasing the income that is generated through revenues realized through taxation. It also plays a crucial role in the context of rise in the productivity of the host countries. In case of countries that make foreign direct investment in other countries this process has positive impact as well. In case of these countries, their companies get an opportunity to explore newer markets and thereby generate more income and profits.

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35. What ways Bangladesh could attract more FDI in the country?

Some of the recent major measures undertaken by the government to attract FDI are:

a) Private Export processing Zone Act has been enacted. Korea has set up a private EPZ at Chittagong.
b) A Regulatory Reform Commission (RRC) has been set up.
c) A permanent Law Reform Commission has been set up to ensure greater transparency and predictability in the way rules and regulations work.
d) An Administrative Reform Commission has been set up
e) The company law 1913 has been updated and revised in 1994.
f) The Industrial relations Act has been enacted to enhance labor market efficiency.
g) Power generation in the private sector has been allowed.
h) Telecommunication in the private sector has been allowed. Foreign Direct Investment in Bangladesh 107

i) Multiple entry visas to visiting foreign investors are being given by all the Bangladesh Missions abroad.
j) Provision made for allowing import of standby generators free of tax and sale of excess electricity to nearby industrial units without permission from any agency provided own distribution line is used.
k) Licenses issued to six cellular telecom phone operators, which illustrate governments Commitment to a competitive and market economy.
l) Establishment of Bangladesh Better Business Forum (BBBF)

On the other hand, some of the incentives allowed for attracting FDI in Bangladesh are:

i) No ceiling on investment
ii) 100% foreign equity participation allowed
iii) Tax holiday up to 10 years
iv) Allowances of accelerated depreciation in lieu of tax holiday
v) Tax exemption and duty free importation of capital machinery and spare parts for 100% export oriented industries
vi) Residency permits for foreign nationals
vii) No restriction on issuing work permit to a foreign national
viii) Capital, profit and dividend repatriation facilities
ix) Term loans and working capital loans from local banks
x) Avoidance of double taxation on the basis of bilateral agreement
xi) Tax exemption on the interest of payable to foreign loans and on royalties and technical know how fees
xii) Open exchange control
xiii) Multiple entry visas for investors
xiv) Convertibility of Taka for current account transactions
xv) Protection of foreign investment through 'The Foreign Private Investment Act-1980' and Settlement of Investment Dispute (ICSID), The Multilateral Investment Guarantee (MIGA), and World Intellectual Property Organization (WIPO).
xvi) Adequate protection is available for intellectual property rights such as patents, designs, trademarks and copyrights.

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