

UNIT 1 REVISION QUESTIONS

Q. Using examples, distinguish between a currency appreciation and a currency depreciation. (4)

Ans. The currency appreciation is the rise in the value of one country's currency in terms of another currency, e.g. if the pound sterling's exchange rate in terms of us Dollar is £1 = \$1.5 and the pound appreciates, then the new rate would be £1 = \$2. This means that currency appreciation enables the appreciated currency to buy more of another currency. A currency depreciation is the fall in the value of one country's currency as compared to another currency e.g. if in the previous example instead of appreciating, the pound sterling had depreciated, then the new exchange rate could be £1 = \$1.25. The pound is able to buy 25 pence less i.e. the depreciated currency buys less of the other currency. A currency appreciation occurs due to the increase in demand of a currency due to which it becomes short in supply which may be because of higher interest rates. A currency depreciation occurs when demand decrease.

Q. Explain the difference between fiscal policy and monetary policy (2)

Ans. Fiscal policy is the government's policy on budget (i.e. spending and borrowing) and taxation. Monetary policy on the other hand is the government's policy on interest rates and bank loans restriction.

Fiscal policy is able to control the aggregate demand of goods and services in the country by increasing or decreasing direct taxes like income or corporation tax and indirect taxes like value added tax on product. This serves to control disposable income and controls inflation. The fiscal policy is also used to prevent current balance deficit by increasing taxes and reducing spending on imports.

The monetary policy, however, controls the supply of money in the economy. It is used to control inflation in relation to prices. The decrease in interest rates and fewer instructions on loans, credit purchase and hire purchase enables more money to be available that pushes up prices. It is used to expand the economy by allowing the money to circulate among the lower income classes of society too.

Q. Assume that your country is given the chance of joining a common currency scheme with other nations. Discuss the issues involved in making such a decision.

Ans. Common currency means using a single currency across a trade block or a group of countries instead of the local currencies (e.g. euro). The major issue to be kept in mind would be the exchange rate fluctuations faced by the Pakistan rupee due to having a floating exchange rate. Once a common currency is joined then there are no fluctuations with all those countries that use the same currency.

Fixed exchange rate means that the importing businesses and exporting businesses can easily sell and buy. The imports of raw materials are easier to calculate and so costs of production are easier to find. Also the uncertainty of exchange rate is removed and changes of unexpected chances in demand for Pakistan's exports reduced as there is a single currency. So the exporting businesses are able to easily find accurate operating profits and sales.

Since a common currency is shared, it causes a reduction in cost as the local currency doesn't have to be converted to pay for imports which requires giving commission to banks e.g. if Pakistan and India were to have the same currency, the India wouldn't have to convert Indian rupees into Pakistan rupees to pay for agricultural and sports imports but could easily pay in the common currency.

Common currency leads to price transparencies. Suppliers which supply best at lowest prices can easily be found as all businesses have same currency and so prices are

easily checked. Customers too easily find the best product at good value. Competitors can easily see where their business stands as comparing is easier. Companies can also know the prices that other businesses in the same industry charge.

The choices of goods and services for customers increase. Also the foreign investments which Pakistan greatly requires would be more forthcoming if it had a common currency as there are less exchange rate fluctuation to worry about.

However, Pakistan must keep in mind the costs for such a conversion like the changing of all accounting system into the new currency. Then the redesigning of the packaging and new adverts as well as retraining of staff to handle the new currency. It may also be that a Central Bank is set up to keep the affairs of the common currency and it may decide the interest rates and monetary policy which may not be good for Pakistan (i.e. The State Bank of Pakistan has reduced powers). This may mean that Pakistan isn't able to maintain its own inflation rates but must agree on the general rates.

Common currency could mean too much competition from more developed countries with better technology and products that could prove bad for the local industries.

Therefore, all these issues must be kept in mind and all benefits and drawbacks calculated before a decision is made to join a common currency.

Q. How might a depreciation of a country's currency lead to benefits for its industries?

Ans. The depreciation of a country's currency means that its value falls against that of another currency. E.g. The current exchange rate of pound sterling against US Dollar is £1 = \$3. The value of pound depreciates. It is now £1 = \$2 i.e. the pound is weaker. This would make the exports of England cheaper. If England exported a machine of £300 worth. It would have cost \$900 to United States at the original rate. However, at the new rate, the same machinery would cost \$600. Thus at this lesser prices the united states may increase its import of England's machines which would increase England's value of exports and give a greater balance of payments surplus.

At the same time imports would appear more expensive. If England imported a curtain of \$30 it would have cost £10 at the original rate. But at the new rate it costs £15. This would be beneficial as it would reduce the imports of England and encourage use of local materials. This may increase the GDP and employment.

Q. Choose 1 ex. of market failure and explain its significance to business – decision making.

Ans. One example of market failure is the failure to find the true total costs of production including the external (social) costs such as pollution (air, water and noise). This has to then be borne by the rest of society. The business must think of this failure before making decisions as not caring for the pollution may give a bad name to the business and pressure groups at the same time as running the reputation would also force the business to pay for the costs. So it would be better if the business accounted for these costs instead of paying forcibly and losing customers.

The government is also affected if the business doesn't take care of external costs as the voters gave the government vote also for maintaining a clean and pollution – free environment. So if the business doesn't take into account these external costs the government may impose taxes and fine, impose strict limits on pollution levels so its better if the business thinks of this market failure beforehand during decision – making.

Q. Write a note on technological advancements impacts on today's business.

Ans. Technology is the creative process which uses human, scientific and material resources to solve problems and generate better efficiency. An important area of technology is IT, Information Technology which is the recording and use of information by electronic means. The advancements in technology creates new opportunities as well as threats

and the major business areas affected are communication, product technology, cost of production, human resources and the market.

In communication, the major impact has been caused by computers and Internal. Within an organization, people communicate via telephone, e-mails and can hold meetings across countries by video – conferencing. The internet is becoming increasingly common as an interface between customers and the business and customers place orders either over the net (e-commerce) or by an interactive television technology called Teletext. Such changes have reduced the retail floor space considerably as well as made communication extremely fast. It has also meant that information is collected, stored and sent quickly which saves money and makes sure information is passed correctly.

Advanced technology has had many changes in production and manufacturing. The use of (AD – Computer Aided Design) CAM (Computer Aided Manufacturing), CMC (Computer Numerically Controlled) production. The designs produced are more accurate that after being viewed as 3D can be altered and tested for faults cheaply and so make them easier to be produced. Then the use of robots in production lines means that boring but essential repetitive tasks can be carried out accurately and quickly which may not be possible for humans due to lack of motivation and tiredness. The nature of the technology creates new products and new demands. The invention of the computer led to a market in computerized games.

Even though technology can't be cheap due to its complexity and rise in fixed costs, the prices are falling. This is because of the volume of production that has spread fixed costs and reduced unit costs of production. It is because businesses have merged for mass production for a global market and so it has become easier to be effective, efficient and fast. Since labour hasn't increased due to the machines and capital intensity, the labour productivity has increased and thus reduced unit costs.

The technology industry is a big human employer and at the same time has affected human resources of many industries. There have been redundancies as certain staff (e.g. workers on production levels) aren't required. Changes of methods has replaced people at all levels. But at the same time many new job opportunities have been created (e.g. computer specialists and machine operators). There is de – skilling as certain skill like designing and crafts are done by computers. But workers have become multi – skilled as they become flexible so that they are able to work with the needs of the new technology. It has caused changed attitudes to career choice and a rise in small organizations as redundant people get together to employ themselves. Delaying in organizational structures has occurred since computers have taken over roles of middle management alongwith team working. It has created a shortage of computer engineers and programmers while the acceptance of change has increased.

In marketing there has been a change in nature of products as well as an increase in variety. The way we shop has changed like over the internet instead of going to retail outlets. Pricing ways are different. First products are expensive but once they are common in market, they become very cheap. Competition has increased and made survival difficult for low technology firms. New ways of distribution have emerged as the world becomes a single market and so delivery of products safely has become faster as well as their availability has increased, then prices reduced while they remain fresh. The high disposable income of some has meant large sales and a healthy entertainment, holiday and leisure industry. Transactions are dealt with differently as bank accounts are present and payments are made via debt and credit cards. There is an increase in home banking. Health and medicine have improved considerably as many more life saving drugs and surgeries can be done easily and so increase life spans.

However technology has –ve effects too. The major is the increasing need of strict data protection as our data becomes compiled like personal interests, lifestyle and work. Data legislation controls the spread of such data but has to change quickly to regulate new ways of hacking and accessing data. The cost of software has increased due to the speed with which it changes and becomes obsolete within months of being made and so there are large costs of updating software incurred. Training costs are also high. The

[youtube.com/c/MegaLecture/](https://www.youtube.com/c/MegaLecture/)

+92 336 7801123

increased dependency on computer systems mean that system failure leads to a total failure on production gives a bad reputation to business. The technology has been resisted by workers representatives due to the insecurity of jobs that they create. Skills of workers are outdated and either they are redundant or have to be retrained in other skills. There are certain ill effects to health like computer glare and an increase in dangerous radiations. There is a resistance to the continuous changes in technology from old managers as their skills become obsolete. The management of change is also difficult as it has led to management being exercised in lower levels of organization which is particularly difficult in organizations with a culture of centralized authority. Due to the increased competitiveness of markets, assets become obsolete quickly and a lot has to be invested on new ones. The management has to time carefully the purchasing of assets so that the business is atleast able to cover its cost. Technological literacy is still a problem especially in third world countries where people aren't even simple literates, let alone computer literates.

Mega Lecture