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**THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED**

**Q.1. Answer the following Questions.**

**(5x6=30)**

1. Discuss the problems in the computation of national income.
2. What is inflation tax? Who pays for the inflation tax?
3. Explain Okun's Law.
4. What is exchange rate? Explain the difference between real and nominal exchange rates?
5. What is GDP deflator? How is it calculated?

**Q.2. Answer the following Questions.**

**(3x10=30)**

1. Using national income identities, prove that excess of saving over investment in the private sector is equal to the government budget deficit and the trade surplus.
2. Define money and explain its different functions. Also explain various forms of money.
3. What is budget deficit? What are the major reasons of incurring budget deficits in Pakistan? Suggest some remedial measures.