

## Unit – 6 Inflation and Business Cycles – 15 Marks Theory

### 1. What is profit-push inflation?

**English:** Profit-push inflation occurs when businesses increase prices to maximize profits, leading to a general rise in price levels.

**Nepali:** मुनाका शैतल मुद्रास्फीति भनेको व्यवसायहरूले मुनाका बढाउन मूल्य बढाउँदा समग्र मूल्य स्तर बढ्ने प्रक्रिया हो।

### 2. List the economic values used to compute the rate of inflation.

**English:** Consumer Price Index (CPI), Wholesale Price Index (WPI), GDP Deflator.

**Nepali:** उपभोक्ता मूल्य सूचकांक (CPI), धोक मूल्य सूचकांक (WPI), जीडीपी अपस्फीतिकारक।

### 3. Point out any four features of trade cycles.

**English:**

- Fluctuations in economic activity
- Periodic ups and downs
- Affects employment and production
- Phases: Boom, Recession, Depression, Recovery

**Nepali:**

- आर्थिक गतिविधिसा उत्तर चढाउ
- त्रिचिपल अवधिमा हुने उचाइ र ढलान
- रोजगारी र उत्पादन प्रभावित
- चरणहरू: उत्थान, मन्दी, अपसाद, पुनरुत्थान

### 4. Which type of inflation is considered good for the economy?

**English:** Moderate inflation (2-3%) is considered good as it encourages spending and investment.

**Nepali:** मध्यम मुद्रास्फीति (२-३%) लाई राम्रो मानिन्छ किनभने यसले खर्च र लगानी प्रोत्साहित गर्छ।

### 5. List out the characteristics of the business cycle.

**English:**

- Recurrent fluctuations
- Irregular in nature
- Affects all sectors

- Phases: Expansion, Peak, Contraction, Trough
- Nepali:**

- बारम्बार उत्तर चढाउ
- अनियमित प्रकृति
- सबै क्षेत्रलाई असर गर्छ
- चरणहरू: विस्तार, शिखर, संकुचन, वल्लो किन्दु

### 6. State the essence of wage-push inflation. 5.38% current inflation rate

**English:** Wage-push inflation occurs when wages rise faster than productivity, leading to higher production costs and price increases.

**Nepali:** मजदुरी शैतल मुद्रास्फीति तब हुन्छ जब उत्पादकत्वभन्दा तल्लो बढी श्रम, जसले उत्पादन लागत र मूल्य वृद्धि गर्छ।

### 7. Define deflation.

**English:** Deflation is a decrease in the general price level of goods and services, often indicating reduced economic activity.

**Nepali:** अपस्फीति भनेको वस्तु र सेवाको सामान्य मूल्य स्तर घट्ने प्रक्रिया हो, जसले आर्थिक गतिविधि घटेको संकेत गर्छ।

### 8. What is meant by trough in the trade cycle?

**English:** The trough is the lowest point in the business cycle where economic activity is at its weakest before recovery begins.

**Nepali:** मन्दीको वल्लो किन्दु भनेको व्यापार चक्रको सबैभन्दा न्यून अवस्था हो जहाँ आर्थिक गतिविधि न्यूनतम हुन्छ।

### 9. What are the various phases of the trade cycle?

**English:** Expansion, Peak, Recession, Trough, Recovery.

**Nepali:** विस्तार, शिखर, मन्दी, वल्लो किन्दु, पुनरुत्थान।

### 10. 2077 Q.No. 16: What are the effects of inflation on production? Explain. [10 Marks]

**Answer:**

Inflation has significant effects on production, which can be both positive and negative depending on its intensity and duration. The major effects include:

#### 1. Increase in Production Costs:

- Rising prices of raw materials, labor, and other inputs increase the cost of production.
- Businesses may face higher operational expenses, reducing profit margins.

## 2. Uncertainty in Investment:

- High inflation creates uncertainty, discouraging long-term investments.
- Businesses hesitate to expand production due to unpredictable costs and demand.

## 3. Shift in Production Priorities:

- Producers may focus on essential goods with stable demand rather than luxury items.
- Inflation can distort resource allocation, leading to inefficiencies.

## 4. Reduction in Real Profits:

- If prices rise faster than revenues, businesses experience a decline in real profits.
- This may lead to cost-cutting measures, including layoffs.

## 5. Impact on Small Businesses:

- Small firms struggle more as they lack pricing power compared to large corporations.
- Some may shut down due to unsustainable costs.

## 6. Encouragement of Speculative Production:

- Businesses may engage in hoarding or speculative production to benefit from future price rises.
- This disrupts normal supply chains.

## 7. Effect on Export Competitiveness:

- If domestic inflation is higher than in other countries, exports become expensive, reducing demand.
- This negatively affects industries reliant on foreign markets.

### Conclusion:

Moderate inflation can stimulate production by increasing demand, but high inflation disrupts cost structures, investment, and economic stability.

मुद्रास्फीतिले उत्पादनमा निम्न प्रभावहरू पाउँछ:

### १. उत्पादन लागत बढ्ने

- कच्चा पदार्थ, श्रम, र उर्जाको मूल्य बढ्दा नाफा घट्छ।
- २. लगानीमा अनिश्चितता
- व्यवसायहरू दीर्घकालीन लगानी गर्न उराउँछन्।
- ३. उत्पादन प्राथमिकतामा परिवर्तन
- आवश्यक बस्तुहरूमा ध्यान केन्द्रित गरिन्छ।
- ४. वास्तविक नाफा घट्ने
- लागत आम्दानीभन्दा बढी बढ्दा घाटा हुन्छ।
- ५. साना व्यवसायमा नकारात्मक प्रभाव
- साना फर्महरू बन्द हुन सक्छन्।
- ६. कालोबजारी बढ्ने
- भविष्यमा मूल्य बढ्ने आशामा सामान जम्मा गरिन्छ।
- ७. निर्यात क्षमतामा कमी
- महँगो उत्पादनले निर्यात घटाउँछ।

निष्कर्ष: मध्यम मुद्रास्फीतिले उत्पादन बढाउन सक्छ, तर उच्च मुद्रास्फीतिले नोक्सानी गर्छ।

11. 2075 Q.No. 13: Explain the effects of inflation on production and distribution. [10 Marks]

Answer:

A. Effects on Production:

1. Higher Input Costs:

- Prices of raw materials, wages, and energy rise, squeezing profit margins.

2. Reduced Investment:

- Uncertainty discourages businesses from expanding production capacity.

3. Decline in Real Wages:

- Workers' purchasing power falls, leading to lower productivity and morale.

4. Distorted Resource Allocation:

- Businesses prioritize short-term profitable sectors over sustainable growth.

B. Effects on Distribution:

1. Income Inequality:

- Fixed-income earners (pensioners, salaried workers) suffer, while asset owners benefit.

2. Redistribution from Lenders to Borrowers:

- Debtors gain as they repay loans with less valuable money.

3. Impact on Savings:

- Savings lose real value, discouraging future investments.

4. Wage-Price Spiral:

- Workers demand higher wages, leading to further price hikes in a vicious cycle.

Conclusion:

Inflation disrupts both production efficiency and fair distribution of wealth, leading to economic instability.

उत्पादनमा प्रभाव:

१. लागत बढ्ने → नाफा घट्छ।

२. लगानी घट्ने → व्यवसाय विस्तार गर्दैन।

३. वास्तविक तलब घट्ने → श्रमिकहरू कमजोर हुन्छन्।

४. सीत दुरुपयोग → अल्पकालीन नाफामा ध्यान दिइन्छ।

वितरणमा प्रभाव:

१. आय असमानता → धनीहरू फाइदा लिन्छन्।

२. ऋणीहरू फाइदामा → सस्तो पैसाले ऋण तिर्छन्।

३. बचत घट्ने → भविष्यको लगानी घट्छ।

४. मजदुरी-मूल्य चक्र → मूल्य र तलबले एकअर्कासाथै बढाउँछ।

12. 2073 Q.No. 12: Define inflation. Explain demand-pull inflation. [3+7 Marks]

Answer:

Definition of Inflation (3 Marks):

Inflation is a sustained increase in the general price level of goods and services in an economy over time, leading to a decline in the purchasing power of money. It is measured by indices like CPI and WPI.

Demand-Pull Inflation (7 Marks):

Demand-pull inflation occurs when aggregate demand exceeds aggregate supply, leading to price rises. Key causes include:

1. Increase in Consumer Demand:

- Rising incomes, credit expansion, or consumer confidence boost spending.

2. Government Expenditure:

- High public spending (e.g., infrastructure, subsidies) increases demand.

3. Monetary Factors:

- Excess money supply (e.g., low interest rates) encourages borrowing and spending.

#### 4. Export-Led Demand:

- Surge in foreign demand for domestic goods reduces local supply.

#### Effects:

- Shortages of goods, higher prices, and potential overheating of the economy.
- Example: Post-pandemic demand surges leading to supply chain bottlenecks.

#### Conclusion:

Demand-pull inflation reflects an economy's inability to meet growing demand, requiring monetary or fiscal interventions.

#### मुद्रास्फीति को परिभाषा (3 अंक):

मुद्रास्फीति भनेको अर्थतन्त्रमा बस्तु तथा सेवाहरूको सामान्य मूल्यस्तरमा निरन्तर वृद्धि हुने प्रक्रिया हो, जसले पैसाको क्रयशक्ति घटाउँछ। यसलाई उपभोक्ता मूल्य सूचकांक (CPI) र थोक मूल्य सूचकांक (WPI) जस्ता सूचकांकहरूद्वारा मापन गरिन्छ।

#### माग-पेरित मुद्रास्फीति (8 अंक):

माग-पेरित मुद्रास्फीति तब हुन्छ जब समय-समयमा मागले समय-आपूर्तिमाइँ पछि पर्छ, जसले गर्दा मूल्यहरू बढ्न थाल्छन्। यसका प्रमुख कारणहरू यस प्रकार छन्:

#### 1. उपभोक्ता मागमा वृद्धि:

- बढ्दो आम्दानी, रूपाको विस्तार, वा उपभोक्ताको विश्वासले खर्च बढाउँछ।

#### 2. सरकारी खर्च:

- उच्च सार्वजनिक खर्च (जस्तै, आधारभूत संरचना, सफाई) ले माग बढाउँछ।

#### 3. मौद्रिक कारकहरू:

- अत्यधिक मुद्रा आपूर्ति (जस्तै, कम ब्याजदर) ले उधारो र खर्चलाई प्रोत्साहन गर्छ।

#### 4. निर्यात-पेरित माग:

- घरेलु बस्तुहरूको विदेशी माग बढ्दा स्थानीय आपूर्ति घट्छ।

#### प्रभावहरू:

- बस्तुहरूको कमी, मूल्य वृद्धि, र अर्थतन्त्रको अति तापन (overheating) को सम्भावना।
- उदाहरण: महामारी पछि माग बढ्दा आपूर्ति शृंखलामा अवरोध आएको थियो।

#### निष्कर्ष:

माग-पेरित मुद्रास्फीति अर्थतन्त्रको बढ्दो माग पूरा गर्न असमर्थतालाई प्रतिबिम्बित गर्छ, जसले गर्दा मौद्रिक वा राजस्वीय हस्तक्षेपहरू आवश्यक हुन्छन्।

#### 13. 2072 Q.No. 12: Explain cost-push inflation. [10 Marks]

#### Answer:

Cost-push inflation occurs when production costs rise, forcing businesses to increase prices. Key causes include:

#### 1. Rise in Raw Material Prices:

- Example: Oil price shocks increase transportation and manufacturing costs.

#### 2. Higher Wages:

- Labor unions negotiating higher wages without productivity gains.

#### 3. Supply Chain Disruptions:

- Natural disasters or geopolitical conflicts (e.g., Ukraine war) disrupt supplies.

#### 4. Government Policies:

- Increased taxes or regulations (e.g., environmental laws) raise operational costs.

#### Effects:

- Stagflation Risk:** Combines inflation with stagnant growth and unemployment.
- Reduced Competitiveness:** Exporters lose market share due to higher prices.

#### Example:

The 1970s oil crisis led to global cost-push inflation as energy prices soared.

#### Conclusion:

Unlike demand-pull inflation, cost-push inflation is harder to control as it stems from supply-side constraints, requiring targeted policies like subsidies or productivity boosts.

Question (2080 Q. No. 17):

Explain the contraction phases of trade cycles. What types of fiscal measures would you apply to stabilize the economy?

[8 + 7 marks]

#### A. Contraction Phase of Trade Cycle (Business Cycle)

The **contraction phase** (also called **recession or downturn**) is a period in the trade cycle when **economic activities decline**. It follows the **peak** and precedes the **trough**.

##### Features of Contraction Phase:

###### 1. Decline in Output & GDP:

- Production decreases in all major sectors.
- GDP growth rate turns negative or slows down.

###### 2. Decrease in Employment:

- Unemployment increases due to falling demand.
- Businesses reduce hiring or lay off workers.

###### 3. Fall in Consumer Demand:

- Consumer spending falls due to low income.
- Businesses suffer losses and cut down investment.

###### 4. Low Investment and Savings:

- Investors lose confidence in the economy.
- Savings may rise as people become cautious.

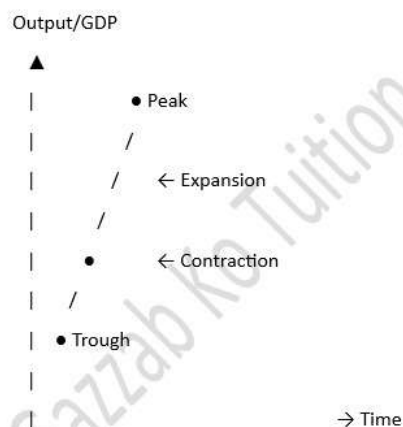
###### 5. Falling Prices (Deflation):

- Demand falls, leading to decreased prices.

###### 6. Low Business Confidence:

- Entrepreneurs become uncertain.
- Credit demand falls even if interest rates are low.

#### Diagram of Business Cycle (With Contraction Phase)



#### ◇ B. Fiscal Measures to Stabilize the Economy During Contraction

During a contraction phase, **expansionary fiscal policy** is applied by the government to **increase demand** and **stimulate economic activity**.

##### ☑ Types of Fiscal Measures:

### 1. Increase in Government Expenditure:

- Spend more on infrastructure, education, health, etc.
- Creates jobs and increases demand.

### 2. Tax Reduction:

- Lower income tax and business tax.
- Increases disposable income and consumer spending.

### 3. Subsidies and Grants:

- Provide subsidies to key industries (agriculture, SMEs).
- Grants to the unemployed and low-income families.

### 4. Public Work Programs:

- Launch government-funded construction, transport, and irrigation projects.
- Reduces unemployment.

### 5. Increase in Transfer Payments:

- Welfare payments like pensions, unemployment benefits help boost demand.

### 6. Budget Deficit Policy:

- Allow deficit budgeting (spend more than revenue) to revive the economy.

### 7. Debt Management:

- The government can borrow more (from internal or external sources) to fund public investment.

### ◇ A. व्यापार चक्रको सङ्कुचन चरण (Contraction Phase)

व्यापार चक्रको सङ्कुचन चरण भनेको त्यो अवस्था हो जहाँ आधिक क्रियाकलापहरू घट्न थाल्छन्। यो शिखर (Peak) पछिको अवस्था हो र न्यूनतम बिन्दु (Trough) सम्म जान्छ।

#### 🔗 सङ्कुचन चरणका विशेषताहरू:

#### 1. उत्पादन र GDP को गिरावट:

- उत्पादनमा गिरावट आउँछ।
- GDP को वृद्धि दर कम वा ऋणात्मक हुन्छ।

#### 2. रोजगारीमा गिरावट:

- बेरोजगारी दर बढ्छ।
- उद्योगहरूले कामदार निकाल्न थाल्छन्।

#### 3. उपभोक्ता मागमा कमी:

- मानिसको आय घटेपछि खर्च कम हुन्छ।

#### 4. लगानी र बचतमा असर:

- लगानीकर्ताहरू आत्मविश्वास गुमाउँछन्।
- अधिक बचत र कम खर्च हुन्छ।

#### 5. मूल्य गिरावट (Deflation):

- मागको कमीका कारण वस्तु तथा सेवाको मूल्य घट्छ।

#### 6. व्यापार आत्मविश्वासको कमी:

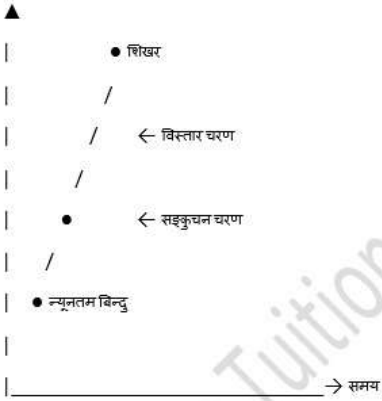
- नयाँ लगानी घट्छ, व्यवसाय डराउँछन्।

### 📊 व्यापार चक्रको चित्र (Contraction Phase सहित)

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उत्पादन/GDP



◇ B. अर्थतन्त्रलाई स्थिर बनाउन लागू गरिने राजस्व (Fiscal) उपायहरू

सङ्कुचन चरणमा सरकारद्वारा विस्तारमुखी राजस्व नीति (Expansionary Fiscal Policy) लागू गरिन्छ।

☑ मुख्य राजस्व उपायहरू

1. सरकारी खर्चमा वृद्धि:

- पूर्वाधार, शिक्षा, स्वास्थ्य आदि क्षेत्रमा खर्च बढाउने।

2. करमा छुट:

- आम्दानी र व्यापार कर घटाउने।

3. सन्धि र अनुदान:

- कृषि, साना उद्योगहरूलाई अनुदान प्रदान गरिने।

4. सार्वजनिक काम कार्यक्रम:

- सरकारद्वारा आयोजना गरिएका सडक, बाँध आदि योजनाहरू।

5. स्थानान्तरण भुक्तानी:

- पेन्सन, बेरोजगारी भत्ता, छात्रवृत्ति जस्ता कार्यक्रमहरू।

6. घाटा बजेट नीति (Deficit Budgeting):

- आम्दानीभन्दा बढी खर्च गर्ने नीति अपनाइन्छ।

7. ऋण व्यवस्थापन:

- विकास खर्चका लागि ऋण लिने व्यवस्था गरिन्छ।

☑ Conclusion (निष्कर्ष):

Contraction phase harms the economy severely, but with proper **fiscal intervention**, demand can be boosted, employment can be created, and stability can be restored.

सङ्कुचन चरणले अर्थतन्त्रमा गम्भीर असर पार्छ, तर उपयुक्त राजस्व नीति माफत अर्थतन्त्रलाई स्थिर र पुनर्जीवित गर्ने सकिन्छ।

2079 Q.No. 18  
 Explain the concept and causes of cost-push inflation. How can it be controlled by monetary and fiscal policies?  
 [(3+4)+(4+4)]  
 2076 Q.No. 19

### Concept of Cost-Push Inflation

**Cost-Push Inflation** refers to a **rise in the general price level** of goods and services caused by an **increase in the cost of production**. When the cost of inputs like wages, raw materials, fuel, or taxes increases, producers pass these costs onto consumers in the form of higher prices.

It is **not caused by excessive demand** but by **rising production costs**, which reduce the supply of goods and services.

लागत-आधारित महँगी भनेको उत्पादन लागतमा भएको वृद्धिका कारण वस्तु तथा सेवाहरूको मूल्यस्तर बढ्ने अवस्था हो। जब कच्चा पदार्थ, पारिश्रमिक, इन्धन, वा करहरू बढ्छन्, उत्पादकहरूले ती लागतहरू उपभोक्तामा स्थानान्तरण गर्छन्।

यो महँगी मागको अत्यधिक वृद्धि होइन, उत्पादन लागतको वृद्धि कारणले हुने हो।

### Causes of Cost-Push Inflation (Explained with Points)

#### 1. Increase in Wages:

- If labor unions demand higher wages, firms' costs increase.
- This leads to higher prices to maintain profit margins.

#### 2. Rise in Prices of Raw Materials:

- For example, a hike in the price of oil, gas, or coal increases transport and production costs.

#### 3. Import Price Rise:

- When a country imports goods or raw materials and their prices rise globally, domestic prices increase too.

#### 4. Higher Indirect Taxes:

- Government-imposed taxes (like VAT or excise duties) make goods more expensive to produce or sell.

#### 5. Currency Depreciation:

- If a country's currency falls in value, imports become costlier, leading to domestic inflation.

#### 6. Supply Shock:

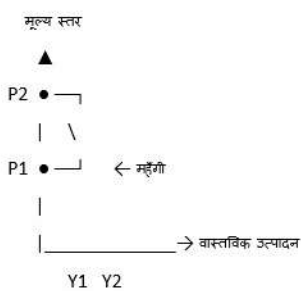
- Natural disasters, war, or political instability can reduce supply and raise costs sharply.

#### 7. Monopoly Power:

- If a few companies dominate the market, they can raise prices regardless of actual costs.

लागत-आधारित महँगीका कारणहरू

1. पारिश्रमिकमा वृद्धि:
  - मजदुरहरूलाई बढी तलब दिँदा उत्पादन लागत बढ्छ।
  - उत्पादकहरूले मूल्य बढाउँछन्।
2. कच्चा पदार्थको मूल्य वृद्धि:
  - पेट्रोलियम, ग्यास, स्टीलजस्ता वस्तुको मूल्य बढ्दा उत्पादन महँगी हुन्छ।
3. आयातको मूल्यमा वृद्धि:
  - अन्तर्राष्ट्रिय बजारमा मूल्य बढ्दा आयातित वस्तु महँगा हुन्छन्।
4. अपत्यक करमा वृद्धि:
  - VAT वा उत्पाद शुल्कजस्ता करहरूले उत्पादन लागत बढाउँछन्।
5. मुद्रा अछिस्पर्जन:
  - विदेशी मुद्रा बलियो हुँदा आयात महँगी पर्छ।
6. आकस्मिक आपूर्ति संकट:
  - प्राकृतिक प्रकोप वा युद्धले आपूर्ति रोकिदिन्छ, मूल्य बढ्छ।
7. एकाधिकार शक्ति:
  - केही कम्पनीहरूले मूल्य मनपरी बढाउँछन्।



व्याख्या:

- SRAS (Short-Run Aggregate Supply) बायाँ सर्फे → SRAS1 देखि SRAS2

- उत्पादन घट्छ (Y1 → Y2) र मूल्य बढ्छ (P1 → P2)

### How Cost-Push Inflation Can Be Controlled

#### ◇ A. Using Monetary Policy (by Central Bank)

##### 1. Increase Interest Rates

→ Higher interest rates reduce borrowing and slow down investment and spending, lowering inflation.

● *Example:* Nepal Rastra Bank can raise the policy rate.

##### 2. Control Money Supply

→ Central bank can reduce the money supply in the economy through open market operations, limiting inflationary pressure.

### 3. Tight Credit Policy

→ Making loans more difficult or costly reduces business expansion and demand, thus slowing down inflation.

#### मादिक नीति (केन्द्रीय बैंकद्वारा)

##### 1. ब्याजदर वृद्धि गर्नु

→ ब्याजदर बढाउँदा ऋण महँगी हुन्छ, खर्च घट्छ, र महँगी नियन्त्रणमा आउँछ।

● उदाहरण: नेपाल राष्ट्र बैंकले नीतिगत ब्याजदर बढाउन सक्छ।

##### 2. मुद्रास्फीति नियन्त्रण गर्न मुद्रा आपूर्ति घटाउने

→ खुला बजार कारोबारमाफत बजारमा रहेका पैसा घटाइन्छ।

##### 3. कर्जा नीति कडाइ गर्नु

→ ऋण पाउन गाह्रो बनाउँदा व्यापार विस्तार घट्छ र माग घट्छ।

#### Using Fiscal Policy (by Government)

##### 4. Reduce Government Spending

→ Lowering public expenditure reduces excess demand and decreases cost pressure in the economy.

##### 5. Increase Taxes

→ Increasing income or consumption taxes reduces disposable income and discourages spending, helping to control inflation.

##### 6. Subsidize Essential Inputs

→ Providing subsidies on fuel, raw materials, or agriculture helps lower production costs, thus controlling cost-push inflation directly.

#### राजस्व नीति (सरकारद्वारा)

##### 4. सरकारी खर्चमा कटौती

→ सरकारको खर्च घटाउँदा माग र मूल्यमा ढबाब कम हुन्छ।

##### 5. करमा वृद्धि गर्नु

→ आम्दानी वा उपभोगमा कर बढाउँदा उपभोक्ताको खर्च घट्छ।

6. उत्पादन लागत घटाउन अनुदान दिने  
→ इन्धन, कच्चा पदार्थ, कृषिमा अनुदान दिदा उत्पादन लागत कम भई मूल्य घट्छ।

118. 2078 Q.No. 19  
Explain the principle of demand-pull inflation. How can it be removed by monetary and fiscal policies? [7+(4+4)]

**Demand-pull inflation** occurs when the overall demand for goods and services in an economy increases more than the economy's ability to produce them. This excess demand leads to a rise in prices.

डिमाण्ड पुल मुद्रास्फीति भन्नाले त्यस्तो अवस्थामा उत्पन्न हुने मुद्रास्फीति हो, जब कुनै देशको समय माग (demand) आपूर्ति (supply) भन्दा धेरै हुन्छ। माग बढी हुँदा मूल्य वृद्धि (price rise) हुन्छ।

#### Principle of Demand-Pull Inflation:

1. **Excess Demand:** Inflation arises when demand for goods and services exceeds their supply.
2. **Price Mechanism:** Due to scarcity, prices rise to balance demand and supply.
3. **Economic Growth Link:** Often seen during periods of economic expansion.
4. **Money Supply Effect:** Increase in money supply can boost demand, leading to inflation.
5. **Government Role:** Excessive public spending can also cause demand-pull inflation.
6. • अत्यधिक माग: जब वस्तु तथा सेवाहरूको माग आपूर्तिभन्दा बढी हुन्छ, मुद्रास्फीति हुन्छ।
7. • मूल्य प्रणाली: अभावका कारण मूल्यहरू बढ्छन् ताकि माग र आपूर्ति सन्तुलनमा ल्याउन सकियोस्।
8. • आर्थिक वृद्धि संग सम्बन्धित: यस्तो मुद्रास्फीति आर्थिक वृद्धिको समयमा बढी देखिन्छ।

9. • मुद्रा आपूर्ति प्रभाव: मुद्रा आपूर्ति (money supply) बढ्दा माग पनि बढ्छ र मुद्रास्फीति निम्तिन्छ।
10. • सरकारी खर्च: अत्यधिक सरकारी खर्चले पनि डिमाण्ड-पुल मुद्रास्फीति निम्त्याउँ

Here's how Demand-Pull Inflation can be controlled using Monetary and Fiscal Policies, explained in points

#### A. Monetary Policy Measures

(By Central Bank – e.g., Nepal Rastra Bank)

1. **Increase Interest Rates** – Higher interest reduces borrowing and spending. १. ब्याजदर वृद्धि गर्नु – उच्च ब्याजदरले ऋण लिने र खर्च गर्ने झट्ट घटाउँछ।
2. **Reduce Money Supply** – By selling government bonds. २. मुद्रा आपूर्ति घटाउनु – सरकारी ऋणपत्र बिक्री गरेर।
3. **Increase Cash Reserve Ratio (CRR)** – Banks will lend less money. ३. नगद अनुपात (CRR) बढाउनु – बैंकहरूले कम ऋण दिन्छन्।
4. **Open Market Operations (OMO)** – Sell securities to absorb excess money. ४. खुला बजार कारोबार – अतिरिक्त पैसा हटाउन सरकारी बन्डहरू बिक्री गर्नु।

#### B. Fiscal Policy Measures

(By Government – via taxation and spending)

1. **Reduce Government Spending** – Cuts public expenditure to reduce demand. १. सरकारी खर्च घटाउनु – समय माग कम गर्न।
2. **Increase Taxes** – Reduces disposable income and consumer demand. २. कर वृद्धि गर्नु – व्यक्तिगत खर्च गर्न सक्ने रकम घटाउँछ।
3. **Control Budget Deficit** – Avoid excessive borrowing and spending. ३. बजेट घाटा नियन्त्रण गर्नु – अत्यधिक ऋण र खर्च रोक्न।
4. **Subsidy Reduction** – Reducing subsidies on goods to discourage overconsumption. ४. अनुदान घटाउनु – अत्यधिक उपभोग रोक्न।

18. 2076 Q.No. 19

Explain the depression phase of trade cycle. What types of fiscal instruments would you suggest to remove it? [15]

### Depression Phase of Trade Cycle

The Depression Phase is the lowest point in the trade or business cycle. It is a period of prolonged economic decline with very low demand, high unemployment, low income, and falling prices.

#### Key Features:

1. **Lowest economic activity** – Production and trade almost stop.
2. **High unemployment** – Most businesses lay off workers.
3. **Falling prices** – Due to very low demand.
4. **Low profits** – Businesses may face losses or shut down.
5. **Lack of investment** – No confidence in the economy.
6. **Low consumer spending** – Due to reduced income and fear of job loss.

मन्दी चरण (Depression Phase) व्यापार चक्रको सबैभन्दा तल्लो बिन्दु हो। यो चरणमा आर्थिक गतिविधि अत्यन्त न्यून हुन्छ, माग कम हुन्छ।

#### मुख्य विशेषताहरू:

1. आर्थिक गतिविधिको न्यूनतम स्तर – उत्पादन र व्यापार प्रायः रोकिन्छ।
2. बेरोजगारी अत्यधिक – धेरै सज्जदुरले रोजगारी गुमाउँछन्।
3. मूल्यहरू घट्ने – किनभने माग धेरै कम हुन्छ।
4. नाफा घट्ने – व्यापारहरू घाटामा जान सक्छन्।
5. लगानीको अभाव – अर्थतन्त्रमा विश्वास घट्छ।
6. उपभोक्ता खर्च कम – आमदानी घटेको र डरका कारण खर्च घट्छ।

To remove or recover from the depression phase, the government can use expansionary fiscal policy instruments to increase aggregate demand and boost economic activity.

### Suggested Fiscal Instruments:

1. **Increase Government Spending**
  - Invest in infrastructure, health, education, etc., to create jobs and stimulate demand.
2. **Reduce Taxes**
  - Lower income tax and business tax to increase disposable income and encourage consumption and investment.
3. **Subsidies and Incentives**
  - Provide subsidies to key industries and support small businesses to promote production.
4. **Public Work Programs**
  - Launch employment-generating projects like road construction and development works.
5. **Transfer Payments**
  - Increase welfare payments, pensions, and unemployment benefits to boost consumer spending.

मन्दी चरण हटाउनका लागि सरकारको तर्फबाट समग्र माग बढाउन र आर्थिक गतिविधि पुनः सक्रिय बनाउन विस्तारित राजस्व नीति (Expansionary Fiscal Policy) प्रयोग गर्नुपर्छ।

#### सुझाव गरिएका राजस्व उपकरणहरू (Fiscal Instruments):

1. **सरकारी खर्च बढाउने**
  - पूर्वाधार, शिक्षा, स्वास्थ्यमा लगानी गरी रोजगारी सिर्जना र माग बृद्धि गर्नु।
2. **कर दर घटाउने**
  - आम्दानी कर र व्यवसाय कर घटाएर उपभोग र लगानी बढाउनु।
3. **अनुदान र प्रोत्साहन पदान गर्ने**
  - साना उद्योग र मुख्य उद्योगहरूलाई अनुदान दिई उत्पादन बढाउने।
4. **सार्वजनिक कार्य कार्यक्रम सुरु गर्ने**
  - सडक निर्माण, सार्वजनिक विकासजस्ता रोजगारी सिर्जना गर्ने योजना सम्पन्न गर्ने।
5. **हस्तान्तरण भुक्तानी (Transfer Payments) बढाउने**
  - पेन्सन, बेरोजगारी भत्ता, सामाजिक सुरक्षा भुक्तानीमाथि उपभोग बढाउने।