



Orochi Ace,
Founder and CEO, GCA.
facebook.com/gcaofficial



The Institute of Chartered Accountants of Pakistan

Foundation/Modular Examinations

Spring 2001

March 14, 2001

INTRODUCTION TO ECONOMICS & FINANCE
FE-1 (Paper-5)/MODULE "A" (Paper-A3)

(MARKS 100)
(3 hours)

- Q.1 (a) What do you understand by:
- (i) income elasticity of demand, and (02)
 - (ii) cross elasticity of demand. (02)
- (b) Product Zeta currently sells for Rs.10 per unit and the demand at this price is 22,000,000 units. If the price fell to Rs.8 per unit, demand would increase to 27,000,000 units. Compute price elasticity of demand and interpret your result. (05)
- (c) 'The price elasticity of demand of cigarette is low', Discuss the importance of this statement for a government policy maker involved in levying taxes to generate revenues. (05)
- (d) What does unit elasticity of demand signify? (02)
- Q.2 (a) Draw a labeled diagram of equilibrium of a firm in the long run under perfect competition. Explanation is not required. (06)
- (b) What is 'Price Discrimination'? Such discrimination is profitable for the seller under certain conditions. Please explain. (08)
- Q.3 (a) There are circumstances under which a government that is normally committed to the principles of a 'Free Market' decides to take interventionist measures. List down such circumstances. (05)
- (b) 'Two indifference curves on a single indifference map never intersect each other'. Comment with the help of a diagram. (06)
- Q.4 (a) Explain the effect of 'devaluation of currency' on the balance of payment - current account of the country with the help of J-curve. (07)
- (b) Briefly discuss the arguments against the policies of a government to protect the domestic producer. (12)

(2)

Q.5 The Economic Survey of the government of Aladina discloses the following:

	Rupees in millions
Government expenditure	7,500
Sales value of output of firms	30,000
Imports	6,000
Profit before tax of firms	10,500
Consumers' expenditure	16,500
Wages etc. received by employees	12,000
Tax deducted out of wages	1,500
Exports	6,000
Cost of goods and services purchased from outside firms	6,000

You are required to compute the Gross Domestic Product (GDP) by:

- i) expenditure approach **(05)**
 - ii) income approach **(05)**
 - iii) value added approach **(05)**
- Q.6 (a) What are the advantages of 'Paper Money'? **(05)**
- (b) Discuss the Principles of Note issue **(10)**
- Q.7 (a) What is 'Velocity of circulation of money'? Identify four different functions of money. **(05)**
- (b) If money (i.e. nominal) rate of interest is 16% and the annual rate of inflation is 5.45%. What is the real rate of interest? **(05)**

(THE END)



September 05, 2001

**INTRODUCTION TO ECONOMICS AND FINANCE
FE-1 (PAPER-5) & MODULAR PAPER A3 ('A', SM '5')**

**(MARKS 100)
(3 hours)**

Q.1 The following data refer to the Federal Budget of Pakistan for the financial year 2001-02:

<u>Receipts</u>	<u>Rs. in billions</u>
Revenue receipts	
Direct Taxes	150
Indirect Taxes	308
Non Tax Revenue	139
Surcharge on gas and petroleum	47
Provincial share	(190)
Capital receipts	(06)
External aid	261
Credit from banking sector	10
Others	33
Total resources	<u><u>752</u></u>
<u>Expenditure</u>	
Defence	132
Debt servicing	329
General, Administration, social and other services	81
Others	80
Development Expenditure-Federal	100
-Provincial	30
Total expenditures	<u><u>752</u></u>

Required: Using your knowledge of economic theory, general economic environment, and the above data, you are required to critically comment on the general health and direction of the Country's economy. **(15)**

- Q.2 (a) What is 'Deficit Financing'? Is it same as 'Deficit Budgeting'? **(05)**
- (b) Why do the Governments of developing countries resort to Deficit Financing? **(10)**

- Q.3 Explain and illustrate the Equilibrium of a Firm under Monopolistic-Competition? **(10)**
- Q.4 Describe the following briefly:
- (a) Human Capital **(03)**
 - (b) Concept of Scarcity **(03)**
 - (c) Opportunity Cost **(04)**
- Q.5 Define Demand-pull inflation and Cost Push inflation. How can demand-pull inflation be controlled? **(05)**
- Q.6 Discuss the role of commercial banks in the economic development of Pakistan. **(10)**
- Q.7 (a) What is the fundamental difference between the objectives of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD - also known as the World Bank)? **(05)**
- (b) Briefly discuss quantitative measures adopted by a Central Bank to control credit in the economy. **(10)**
- Q.8 (a) State five assumptions on which the analysis of Consumer's Equilibrium is based. **(05)**
- (b) Using indifference curves analysis, explain the equilibrium of a consumer with the help of a diagram, at which point in the diagram is it in equilibrium and why? **(12)**
- (c) In context of Consumer's Equilibrium, explain the effect of a change in income when the goods being used are 'inferior'. **(03)**

(THE END)



March 6, 2002

INTRODUCTION TO ECONOMICS AND FINANCE
FE-1 Paper 5 – Modular A3 (Module A, SM ‘5’)

(MARKS 100)
(3 hours)

- Q.1 Describe the following briefly:
(a) Unemployment and its Consequences (b) Important Principles of Taxation
(c) Main Objectives of Monetary Policy (d) The Role of Exports in the National Economy **(20)**
- Q.2 (a) In Market Economy, the price mechanism solves the central problems of Economy. Discuss. **(10)**
(b) Analyse the Marginal Utility approach to consumer behaviour. **(05)**
- Q.3 In ideal case of a perfect market, factors of production will move to whichever use of factor provides higher reward. If ‘labour market’ were perfect, labour will move in response to better wage rates obtainable in other regions or in other jobs. In practical world, we observe many ‘obstacles’ to the mobility of labour. Discuss such obstacles. **(10)**
- Q.4 Compare and contrast ‘Keynesian’ and ‘Monetarist’ approaches to the demand for money. What are the implications of the two approaches for government economic policy? **(15)**
- Q.5 Following data relates to the economy of a country over a year period.
- | | Rs. In Millions |
|--|-----------------|
| Capital consumption | 2,625 |
| Subsidies | 450 |
| Exports | 9,675 |
| Imports | (9,360) |
| Consumers’ expenditure | 27,600 |
| Taxes on expenditure | (4,140) |
| Net property income from abroad | 315 |
| Value of physical decrease in stocks | (30) |
| Gross domestic fixed capital formation | 7,380 |
| General government final consumption | 6,810 |
- Required:**
You are required to compute the following, showing necessary workings:
- a. Gross Domestic Product (GDP) at market prices and at factor cost **(06)**
b. Gross National Product (GNP) at market prices and at factor cost **(06)**
c. National Income at factor cost **(03)**
- Q.6 Differentiate between the following:
(a) Money Market and Capital Market **(05)**
(b) Open-End Mutual Fund and Close-End Mutual Fund **(05)**
- Q.7 (a) What do you mean by Market? **(03)**
(b) Briefly classify the Market-Structure on the basis of competition. **(12)**

(THE END)



September 04, 2002

INTRODUCTION TO ECONOMICS & FINANCE
FE-1 Paper 5 & Module A Paper A3

(MARKS 100)
(3 hours)

- Q.1 Enumerate the main characteristics of the Market Economy and the Planned Economy. **(10)**
- Q.2 (a) Differentiate between Short-Run and Long-Run in relation to Cost. **(05)**
(b) Describe briefly the Internal and External Economies of Scale. **(10)**
- Q.3 (a) How marginal utility theory of consumer demand differs from indifference curve theory? **(03)**
(b) Explain how the indifference curve and budget line apparatus are used to derive a consumer demand curve. For a demand curve, certain things are held constant, what are they? **(12)**
- Q.4 (a) Distinguish between balance of trade and balance of payment. **(05)**
(b) What are the factors, which cause adverse balance of payment in Pakistan? **(10)**
- Q.5 (a) What is Liquidity Trap? **(05)**
(b) Describe the main objectives of fiscal policy. **(10)**
(c) Describe monetary rule. **(05)**
- Q.6 (a) Point out the essential attributes of good money. **(05)**
(b) Define a Commercial Bank and state its main functions. **(10)**
- Q.7 Write notes on any three Institutions of Capital Market. **(10)**

(THE END)



March 05, 2003

INTRODUCTION TO ECONOMICS & FINANCE

(MARKS 100)

Module A Paper A3/FE-1 Paper 5

(3 hours)

- Q.1 (a) Discuss the main characteristics of an underdeveloped economy. (10)
(b) Explain the purchasing power parity theory of exchange rate determination. (05)
- Q.2 (a) Identify the main determinants of the National Savings. (10)
(b) Define the concept of Investment Multiplier. What determines its size? (05)
- Q.3 (a) Identify the factors which determine the Elasticity of Demand of Normal Goods. (05)
(b) A perfectly – competitive firm is in equilibrium when its $MC=MR$ and MC curve cuts MR curve from below. Explain and illustrate. (10)
- Q.4 Differentiate the following:
- (a) GDP deflator and consumer price index (CPI)
(b) Sunk Capital and Floating Capital
(c) Progressive taxation and Proportional taxation
(d) Pure monopoly and Natural monopoly
(e) Put option and Call option (10)
- Q.5 (a) Discuss the factors on which capital formation in a country depends. (04)
(b) Diminishing returns to a single factor of production and constant returns to scale are not inconsistent. Discuss. (04)
(c) How does oligopoly differs from monopolistic competition? (04)
- Q.6 (a) Bring out the significance of Price Elasticity of Demand for individuals as well as for the state. (05)
(b) What is meant by Normal Profit? (05)
- Q.7 (a) Explain four differences between a 'share' and a 'debenture'. (03)
(b) Describe the instruments of Capital market. (05)
(c) Describe the quantitative method of credit control adopted by the central bank to control credit. (04)
(d) Briefly discuss the role of State Bank of Pakistan (SBP) as Bankers' Bank. (03)
- Q.8 (a) Briefly describe three aims of commercial banks. (05)
(b) Discuss the concept of Capital Adequacy in context of commercial banks. (03)

(THE END)



September 03, 2003

INTRODUCTION TO ECONOMICS & FINANCE

(MARKS 100)

Module A

(3 hours)

- Q.1 (a) Define and explain (by giving appropriate examples) the concept of ‘opportunity cost’? (05)
- (b) Explain the relationship among production, consumption and capital formation. (05)
- Q.2 How would the demand for Article A change when the price of Article B goes up:
- (a) When A and B are complements
- (b) When A and B are substitutes
- In answering parts (a) and (b) give appropriate examples of complements and substitutes. (08)
- Q.3 (a) The Perfect Market is only a theoretical concept. Discuss. (05)
- (b) Bring out economic arguments against the Monopoly. (05)
- Q.4 The Law of Increasing Returns is also called the Law of Diminishing Cost. Explain with the help of a schedule. (10)
- Q.5 (a) What are the chief methods of lending available to commercial banks? (04)
- (b) What is money market? Describe the institutions and instruments of money market. (11)
- Q.6 (a) Highlight the role played by the Money Market in the development of a country. (05)
- (b) Explain the reasons for the present boom prevailing in the Stock Markets of Pakistan. (05)
- Q.7 Write explanatory notes on:
- (a) Goals of Economic Policy (07)
- (b) Merits of Direct Taxes (07)
- (c) Suggestions to boost Pakistan’s Exports (08)
- Q.8 (a) Outline the Expenditure approach to measure GDP, GNP, NNP and the National Income. (05)
- (b) Describe the utility of computing the National Income. (05)
- (c) Discuss the main objectives of monetary policy. (05)

(THE END)



March 08, 2004

INTRODUCTION TO ECONOMICS AND FINANCE

(MARKS 100)

Module A

(3 hours)

- Q.1 Distinguish between Microeconomics and Macroeconomics and elaborate their respective fields of study. **(10)**
- Q.2 Differentiate the following:
- (a) Direct Demand & Derived Demand **(05)**
 - (b) Explicit Cost & Implicit Cost **(05)**
 - (c) Net Interest & Gross Interest **(05)**
- Q.3 (a) Define a market and enlist the factors which determine its extent. **(05)**
(b) What is meant by Monopolistic-Competition? Enumerate its main characteristics. **(05)**
- Q.4 (a) Enumerate the difficulties in measuring the National Income in the developing countries. **(10)**
(b) Examine the concept of Effective Demand. **(05)**
- Q.5 (a) Define the concept of Liquidity Preference. State its motives. **(05)**
(b) Account for the phenomenal rise of the Exchange Reserves of Pakistan. **(05)**
- Q.6 (a) State briefly the significance and importance of Money. **(10)**
(b) Why does the Central Bank resort to Open Market Operations? **(03)**
- Q.7 (a) Give a brief overview of Financial Institutions functioning in the country. **(07)**
(b) Analyse the components of Monetary Assets in Pakistan. **(05)**
- Q.8 (a) What is Marginal Productivity Theory? **(05)**
(b) Discuss the weapons available with a Central Bank to control a persistent inflationary situation. **(10)**

(THE END)



September 08, 2004

INTRODUCTION TO ECONOMICS AND FINANCE

(MARKS 100)

MODULE A

(3 hours)

- Q.1 Enumerate the merits and demerits of Market Economy. (10)
- Q.2 Define Indifference Curve. State its three main properties. (08)
- Q.3 (a) Illustrate and explain the reasons for having different interest rates in the same market. (05)
(b) Define Oligopoly. Briefly describe its three important characteristics. (05)
- Q.4 Why is Short-Run Average Cost Curve (SAC) U-shaped? Explain briefly, also draw diagram of SAC. (10)
- Q.5 Explain the balance of payment system. Give remedies in case there is an adverse balance in the balance of payment account. (08)
- Q.6 Describe the different categories of unemployment and suggest measures to reduce un-employment. (10)
- Q.7 (a) Define Investment. Identify the factors which influence private investment. (10)
(b) Outline the qualities of a good tax system. (05)
- Q.8 (a) What are the non-traditional functions of the State Bank of Pakistan? (06)
(b) Elucidate the advantages of bank money. (06)
- Q.9 (a) Explain briefly the process of creation of credit by commercial banks. (08)
(b) Enumerate any five constituents of Capital Markets of Pakistan. (05)
- Q.10 What do you understand by the terms:
- (i) Economic rent (02)
(ii) Inflationary gap. (02)

(THE END)



March 09, 2005

INTRODUCTION TO ECONOMICS AND FINANCE (MARKS 100)

Module A (3 hours)

- Q.1 Highlight the salient features of Mixed Economy. (08)
- Q.2 (a) Explain why indifference curves for economic goods are negatively sloped? (04)
(b) What is the implication of a positively sloped indifference curve? (03)
(c) Diagrammatically show the income and substitution effect of a price increase for a Normal good. (03)
- Q.3 (a) Define opportunity cost. (03)
(b) What do you understand by the law of diminishing marginal utility and what are the limitations of the law of diminishing marginal utility? (05)
- Q.4 Is the Monopoly-Price always higher than the Competitive-Price? Discuss. (09)
- Q.5 (a) Identify the factors which influence the mobility of labour. (05)
(b) Briefly explain the multiplier-accelerator theory. Also give suitable examples. (09)
- Q.6 What do you understand by the term 'fiscal policy'? What are its important objectives? (10)
- Q.7 Point out the main objectives of economic growth. State the essential requisites for economic growth. (10)
- Q.8 (a) Determine the goals of public expenditure. (05)
(b) What are the factors that hamper the foreign direct investment in Pakistan? (08)
- Q.9 List down different types of sources of fund available to a corporate entity and explain any four. (08)
- Q.10 Write notes on:
(a) The role of State Bank of Pakistan as banker to the Government. (05)
(b) The role of Capital Market in the Economic Development. (05)

(THE END)



September 4, 2006

INTRODUCTION TO ECONOMICS AND FINANCE (MARKS 100)
Module A (3 hours)

- Q.1 (a) Briefly explain the term 'marginal rate of substitution' with the help of a table. (04)
(b) Why does marginal rate of substitution diminish? (03)
- Q.2 (a) Briefly describe at least six causes of inflation. (06)
(b) What measures may be taken to control inflation? (06)
- Q.3 Explain the shut down point of a firm under perfect competition with the help of a diagram. (07)
- Q.4 Why do countries practice protectionism while carrying out international trade? Also mention at least two drawbacks of protectionism. (06)
- Q.5 Land is one of the factors of production. Explain the economic meaning and characteristics of land. (05)
- Q.6 A market is a mechanism through which buyers and sellers interact for exchange of goods and services. Briefly describe the factors which determine the size of the market. (06)
- Q.7 Identify and briefly explain the characteristics of a good system of taxation. (09)
- Q.8 What is meant by 'public debt'? Discuss the important purposes of raising public debt. (05)
- Q.9 Commercial banks are primarily involved in deposit taking and providing loans to customers. Identify at least ten other functions performed by them. (05)
- Q.10 According to the law of demand, when price of a commodity increases, its demand falls. The law holds good under certain assumptions. Briefly describe these assumptions and the limitations of the law. (06)
- Q.11 Explain the meaning of 'oligopoly'? Describe its economic effects. (05)

(2)

- Q.12 What do you understand by the term 'market mechanism'? How does it solve the basic economic problems? (07)
- Q.13 (a) What is a mutual fund? What is the main difference between open-end and closed-end mutual funds? (04)
- (b) Describe the main advantages of investing through mutual funds. (02)
- (c) Discuss at least four types of mutual funds differentiating them on the basis of their investment objectives. (06)
- Q.14 Explain with the help of a diagram, how equilibrium of national income is determined. (08)

(THE END)



March 06, 2006

INTRODUCTION TO ECONOMICS AND FINANCE (MARKS 100)
Module A (3 hours)

- Q.1 Briefly describe the merits and demerits of capitalism. (07)
- Q.2 Elaborate the relationship between supply and time with the help of diagram. (06)
- Q.3 Describe the different ways in which a product may be differentiated. (05)
- Q.4 Explain the short and long run equilibrium of a firm under monopolistic competition with the help of diagrams. (10)
- Q.5 Explain the law of diminishing returns giving suitable example and diagram. Under what circumstances does the law operate? (09)
- Q.6 What is meant by division of labour? Explain the different forms of division of labour. (06)
- Q.7 Describe the factors that affect the level of consumption and savings in an economy. (06)
- Q.8 Elucidate the meaning and phases of business cycle. (07)
- Q.9 (a) Discuss the factors that have an adverse effect on the economic growth of a country. (06)
(b) Briefly describe the various types of unemployment. (04)
- Q.10 (a) What are the tools available to the central bank of a country for controlling the supply of money in the economy? (06)
(b) Briefly explain the factors that influence change in foreign exchange rates. (06)
- Q.11 (a) What is meant by credit money? (02)
(b) Discuss the advantages and disadvantages of using paper money. (08)
- Q.12 (a) What do you understand by capital market? (03)
(b) Briefly describe the role of capital markets in any country. (03)
(c) Give a brief description of any six instrument of capital market. (06)

(THE END)



September 4, 2006

INTRODUCTION TO ECONOMICS AND FINANCE (MARKS 100)
Module A (3 hours)

- Q.1 (a) Briefly explain the term 'marginal rate of substitution' with the help of a table. (04)
(b) Why does marginal rate of substitution diminish? (03)
- Q.2 (a) Briefly describe at least six causes of inflation. (06)
(b) What measures may be taken to control inflation? (06)
- Q.3 Explain the shut down point of a firm under perfect competition with the help of a diagram. (07)
- Q.4 Why do countries practice protectionism while carrying out international trade? Also mention at least two drawbacks of protectionism. (06)
- Q.5 Land is one of the factors of production. Explain the economic meaning and characteristics of land. (05)
- Q.6 A market is a mechanism through which buyers and sellers interact for exchange of goods and services. Briefly describe the factors which determine the size of the market. (06)
- Q.7 Identify and briefly explain the characteristics of a good system of taxation. (09)
- Q.8 What is meant by 'public debt'? Discuss the important purposes of raising public debt. (05)
- Q.9 Commercial banks are primarily involved in deposit taking and providing loans to customers. Identify at least ten other functions performed by them. (05)
- Q.10 According to the law of demand, when price of a commodity increases, its demand falls. The law holds good under certain assumptions. Briefly describe these assumptions and the limitations of the law. (06)
- Q.11 Explain the meaning of 'oligopoly'? Describe its economic effects. (05)

(2)

- Q.12 What do you understand by the term 'market mechanism'? How does it solve the basic economic problems? (07)
- Q.13 (a) What is a mutual fund? What is the main difference between open-end and closed-end mutual funds? (04)
- (b) Describe the main advantages of investing through mutual funds. (02)
- (c) Discuss at least four types of mutual funds differentiating them on the basis of their investment objectives. (06)
- Q.14 Explain with the help of a diagram, how equilibrium of national income is determined. (08)

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN



Foundation Examinations Spring 2007

March 7, 2007

INTRODUCTION TO ECONOMICS AND FINANCE (Marks 100)
Module B (3 hours)

- Q.1 Describe the consumer's equilibrium using indifference curve approach. (10)
- Q.2 Elaborate the characteristics of a 'monopoly'. (04)
- Q.3 Briefly describe the factors that are mainly responsible for determining the quantum of supply in the market. (09)
- Q.4 Describe the merits of small-scale production. (06)
- Q.5 In response to a small increase in the investment level, there is a greater increase in national income. Explain the reasons thereof with the help of a table. (07)
- Q.6 Under perfect competition, the price at which a seller will refuse to sell is called reserve price. What are the factors that affect such price? (07)
- Q.7 Explain the role of the 'state' in a mixed economy. Illustrate with examples. (08)
- Q.8 Price discrimination is said to exist when a firm is able to charge two or more different prices for the same commodity. Explain how a firm uses price discrimination to increase its profits. Prepare appropriate diagrams. (10)
- Q.9 Balance of payment is divided into three parts i.e. Current Account, Capital Account and Changes in Reserve Assets.
What do you understand by Current Account? Explain how Current Account deficit may be controlled. (10)
- Q.10 (a) What is meant by 'Progressive Taxation'? Please illustrate. (03)
(b) Identify the merits of Progressive Taxation. (04)
- Q.11 (a) Elaborate the main factors that affect the general rate of interest in an economy. (05)
(b) Explain the term 'Real Rate of Interest' with an example. (03)
- Q.12 Briefly narrate the difficulties in the measurement of National Income. (08)
- Q.13 Briefly describe the principles of 'Multilateral Trading System' under the WTO regime? (06)

(THE END)



September 05, 2007

INTRODUCTION TO ECONOMICS AND FINANCE

(MARKS 100)

Module B

(3 hours)

- Q.1 (a) Marginal utility means the additional utility a consumer gets from consumption of an additional unit of a commodity. How does the concept apply to;
- (i) Normal goods
 - (ii) Money
- (04)**
- (b) Briefly explain, with the help of a suitable example, how law of equi-marginal utility operates. **(07)**
- Q.2 (a) Explain the reasons because of which firms may come across with diseconomies of scale. **(06)**
- (b) Explain, with reasons, the relationship among marginal revenue, average revenue and price under perfect competition. **(06)**
- Q.3 Explain inflationary and deflationary gaps in the economy using appropriate diagrams. **(11)**
- Q.4 (a) Briefly discuss the exchange rate determination under:
- (i) purchasing power parity theory; and
 - (ii) demand and supply theory.
- (08)**
- (b) Submit your argument in favour of floating exchange rate policy. **(05)**
- Q.5 (a) Describe the process of credit creation by commercial banks with the help of an example. **(08)**
- (b) What role does the central bank play in controlling the process of credit creation? **(06)**
- Q.6 (a) Identify the advantages of socialistic economy as opposed to capitalism. **(05)**
- (b) Explain the term 'opportunity cost' with the help of an example. **(04)**
- Q.7 According to law of demand, other factors remaining the same the quantity demanded rises when price decreases and vice versa. Briefly describe the factors which cause the demand to rise or fall when price remains the same. **(08)**
- Q.8 State the basic assumptions of the marginal productivity theory. Explain the theory with the help of an example. **(08)**
- Q.9 Describe the main activities of World Trade Organization. **(04)**
- Q.10 (a) What do you understand by the term 'fiscal policy'? What are its main objectives? **(06)**
- (b) What fiscal measures does the government take to increase the level of employment? **(04)**

(THE END)



March 5, 2008

INTRODUCTION TO ECONOMICS AND FINANCE

(MARKS 100)

Module B

(3 hours)

- Q.1 (a) Explain any four factors on account of which the demand of a product may change even when its price remains the same. (06)
- (b) Explain the role of State in a mixed economy. (08)
- Q.2 What do you understand by balance of payment and balance of trade? Describe the steps that may be taken if there is an adverse balance of payment. (09)
- Q.3 The neo-classical theory of interest considers that the rate of interest prevalent in an economy depends on the supply and demand of loanable funds. Explain the factors that affect the supply and demand of such funds. (15)
- Q.4 (a) Identify the four important functions of money and highlight their significance. (08)
- (b) Keynes has identified three different motives on account of which a person prefers to keep his money in liquid form. Identify these motives and describe their influence on the liquidity preference of an individual. (06)
- (c) What do we mean by 'Open Market Operations'? Why does the Central Bank undertake such operations? (04)
- Q.5 Explain the following concepts with reference to consumer behaviour, using appropriate diagrams:
- Price effect
 - Substitution effect
 - Income effect
- (12)
- Q.6 (a) Describe the term 'Land' as a factor of production. Explain the basis of determination of 'Rent'. (05)
- (b) Explain the concept of 'Marginal Efficiency of Capital'. (05)
- Q.7 Differentiate between the following with the help of appropriate examples:
- (a) Direct demand and Derived demand. (04)
- (b) Net interest and Gross interest. (04)
- Q.8 Explain the concept of 'Price Discrimination'. Describe the conditions under which a firm can resort to price discrimination. (06)
- Q.9 Explain the process of profit-maximization by a monopolist with the help of an appropriate diagram. (08)

(THE END)



September 3, 2008

INTRODUCTION TO ECONOMICS AND FINANCE

(MARKS 100)

Module B

(3 hours)

- Q.1 Highlight the main differences between microeconomics and macroeconomics. (06)
- Q.2 Explain the term “price elasticity of demand”. Briefly describe the factors that affect the price elasticity of demand. (07)
- Q.3 (a) Briefly describe the important characteristics of a market under perfect competition. (05)
(b) Explain the equilibrium of a firm under perfect competition, with the help of an appropriate diagram. (05)
- Q.4 There are various factors that influence the inflow of investments in a country. Briefly explain any six such factors. (09)
- Q.5 Explain the law of increasing returns. How does the law apply in the case of a manufacturing industry? (05)
- Q.6 (a) Explain the term marginal rate of substitution with the help of an example. (04)
(b) Why does the marginal rate of substitution diminish? (03)
- Q.7 (a) Briefly describe three different approaches of measuring National Income. (09)
(b) What difficulties are usually faced in measuring National Income? (09)
- Q.8 According to the law of demand, supply of a product increases when the price increases. Briefly describe the other factors that affect the quantum of supply of a product. (09)
- Q.9 Briefly explain the factors which influence the efficiency of labour. (08)
- Q.10 (a) Describe the main factors that affect the general rate of interest in an economy. (06)
(b) Explain the term “Real Rate Of Interest” with the help of an example. (03)
- Q.11 Explain deficit financing and what effects does it have on the economy of a country. (06)
- Q.12 Briefly describe the important features of Classical and Keynesian theories of wages and employment. (06)

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN



Foundation Examinations Spring 2009

March 4, 2009

INTRODUCTION TO ECONOMICS AND FINANCE

(MARKS 100)

Module B

(3 hours)

- Q.1 “Inflation represents a situation whereby the pressure of aggregate demand for goods and services exceeds the available supply of output. This disparity between aggregate demand and aggregate supply may be the result of more than one cause”
- (a) List any **ten** causes of inflation. (05)
- (b) What is a price index? Briefly explain any three commonly used price indices. (08)
- Q.2 To achieve economic policy objectives, the government has a vital economic role in building the necessary infrastructure, ensuring the availability of adequate financing facilities, moulding the social structure and adapting the legal framework to the tasks of development.
- (a) List down the main objectives of the economic policies of a government. (06)
- (b) Briefly discuss the policy tools usually adopted by the government to achieve these objectives. (06)
- Q.3 Briefly describe the various types of unemployment. (06)
- Q.4 Demonstrate your familiarity with the indifference curve approach to the problem of consumer’s equilibrium. Support your description by drawing suitable diagram. (12)
- Q.5 Discuss practical importance of law of equi-marginal utility. (07)
- Q.6 Differentiate between substitute goods, complimentary goods and independent goods. Give two examples of each. (06)
- Q.7 Briefly describe the disadvantages of having a monopoly setup. (08)
- Q.8 What do you understand by “Adverse Balance of Trade”? Briefly describe the steps which are usually taken by the government to control adverse balance of trade. (08)
- Q.9 (a) What do you understand by “Free Trade”. (03)
- (b) Briefly describe the main advantages of “Free Trade”. (06)
- (c) Discuss the situations where a government may be justified in taking measures which may not be in line with the policy of “Free Trade”. (06)
- Q.10 Briefly describe the qualities of a successful entrepreneur. (07)
- Q.11 Discuss external economies and diseconomies of scale. (06)

(THE END)



September 9, 2009

INTRODUCTION TO ECONOMICS AND FINANCE (MARKS 100)
Module B (3 hours)

- Q.1 Explain what is Movement along the Demand Curve and Shift in the Demand Curve highlighting the difference between these two concepts. Also illustrate the difference by means of diagrams. (09)
- Q.2 (a) What is meant by Elasticity of Demand? List and explain briefly the factors which determine the Elasticity of Demand of a product. (07)
- (b) Briefly describe when Demand for a product is considered to be:
- Highly Elastic
 - Unit Elastic
 - Relatively Inelastic
- (03)
- Q.3 (a) Identify and explain the necessary conditions in which it would be possible for a monopolist to resort to price discrimination and charge different prices for the same product in different markets. (06)
- (b) Explain how a monopolist engaged in price discrimination in different markets would be able to earn maximum revenues. (*Diagram is not required*) (05)
- Q.4 Identify and explain briefly the measures which a developing country should take to achieve high levels of growth in productivity? (06)
- Q.5 (a) Explain what do you understand by the term Multiplier. (03)
- (b) What are the limitations of the Multiplier? (06)
- Q.6 (a) What are the objectives of pursuing and implementing a well-managed currency system? (04)
- (b) What is meant by Price Ceiling and Price Floor? Give one example in each case. (05)
- Q.7 (a) What do you understand by the term Gross Domestic Product? State the reason for excluding intermediate goods from the calculations of GDP. (04)
- (b) What is meant by 'Terms of Trade'? Describe the situations in which the Terms of Trade would rise and fall. (03)
- (c) List the main functions of World Trade Organization. (04)

- Q.8 (a) What is meant by Indirect Taxes? Give three examples of Indirect Taxes. (02)
- (b) Briefly explain the disadvantages of Indirect Taxes. (09)
- Q.9 (a) What is meant by Recession? What economic characteristics are most commonly observed during Recessionary periods? (06)
- (b) State any **four** unfavourable consequences of unemployment. (05)
- Q.10 (a) What is meant by Marginal Physical Product? (02)
- (b) Explain the Law of Diminishing Returns and describe briefly the assumptions under which the Law of Diminishing Returns would be applicable. (*Examples and diagrams are not required*) (05)
- Q.11 Briefly explain the following concepts:
- (a) Consumer Surplus
- (b) Price War
- (c) Macroeconomics
- (d) Open Market Operations (06)

(THE END)



March 3, 2010

INTRODUCTION TO ECONOMICS AND FINANCE (MARKS 100)
Module B (3 hours)

- Q.1 (a) Describe consumption goods and state the main determinants of demand for these goods. (02)
(b) State the Law of Increasing Returns and explain the reasons and factors responsible for operation of the Law. (05)
(c) Define Price Elasticity of Demand. Compute the price elasticity of a product if a decline in the price of the product from Rs. 12 per unit to Rs. 11 per unit increases its demand from 48,000 units to 60,000 units. (04)
- Q.2 (a) Define the term National Income and list the components of National Income under the Income Method. (03)
(b) Briefly explain the important uses of National Income statistics. (04)
- Q.3 (a) Explain the term Equilibrium of the Firm. (02)
(b) State the conditions which are essential for the existence of Perfect Competition in a market. (05)
(c) Explain by means of a diagram how price and output are determined in the long-run for a firm operating under conditions of Perfect Competition. (08)
- Q.4 (a) List **five** advantages which countries seek to achieve by pursuing policies of protectionism in international trade. (05)
(b) Explain why countries adopt policies of restriction of imports by quotas rather than by imposition of tariffs. (02)
- Q.5 (a) In your opinion what are the **three** most important **primary** goals of a well-conceived Macroeconomic policy? Briefly discuss the significance of each of these macroeconomic goals. (06)
(b) Explain briefly the concepts of Demand-pull inflation and Cost-push inflation. (04)
- Q.6 (a) State what is meant by Exchange Rate. List the major factors which influence the long-term movements in the Exchange Rates. (04)
(b) Describe **four** factors which are responsible for creating demand for foreign currency in any country. (04)
(c) What is Balance of Payments? What is meant by the term Deficit in the Balance of Payments? (02)
(d) List the main headings under which the various accounts in the Balance of Payments are classified and state the currency in which the Balance of Payments of Pakistan is recorded. (02)

(2)

- Q.7 (a) Describe the Law of Diminishing Marginal Utility. (03)
(b) When is a consumer in an Equilibrium position? (02)
(c) Narrate the assumptions applicable to the indifference curve approach. (03)
(d) With the help of Indifference Curve show how consumers maximize their levels of satisfaction. Support your decision by drawing a suitable diagram. (07)
- Q.8 (a) Explain the term Progressive Taxation. State **four** merits of following a regime of Progressive Taxation. (05)
(b) What are the objectives of World Trade Organisation? (06)
- Q.9 (a) What is meant by Financial Intermediation? (02)
(b) Give reasons why commercial banks strive hard to maintain adequate liquidity at all times. (02)
- Q.10 Briefly explain the following concepts:
(a) Oligopoly (02)
(b) Laissez Faire (02)
(c) Transfer Payments (02)
(d) Structural Adjustment (02)

(THE END)



Introduction to Economics and Finance

Foundation Examinations – Autumn 2010
Module B

September 1, 2010
100 marks - 3 hours

- Q.1 (a) Draw a Diagram of Circular Flow of Income. *(04 marks)*
(b) Identify and explain briefly the **three** different types of Withdrawals and Injections from the Circular Flow of Income. *(06 marks)*
- Q.2 (a) How is Economic Growth measured? *(01 mark)*
(b) List **five** ingredients which influence a country's rate of Economic Growth. *(05 marks)*
(c) Identify **five** features of an economic system based on capitalism. *(05 marks)*
- Q.3 (a) What is Nominal Interest Rate? Differentiate between Nominal Interest Rate and Real Interest Rate. *(03 marks)*
(b) What is meant by Public Debt and how can the government reduce the size of the Public Debt? *(03 marks)*
(c) Identify **eight** functions which are generally performed by the central bank in a country. *(04 marks)*
- Q.4 Explain briefly by means of diagrams, the concepts of Unitary Elastic Demand, Relatively Elastic Demand, and Relatively Inelastic Demand. Also, state the impact of a decrease in price on total expenditure in each of the different types of elasticities of demand. *(12 marks)*
- Q.5 (a) Discuss what is meant by Return to Scale. *(03 marks)*
(b) Explain briefly the concept of Increasing Return to Scale and Decreasing Return to Scale and indicate why these different phenomenon occur. *(05 marks)*
- Q.6 Describe the measures a country may take to correct disequilibrium in the Balance of Payments. *(07 marks)*
- Q.7 According to Keynes, individuals have various motives for retaining their money in liquid form. Identify these motives and explain their influence on the liquidity preference of an individual. *(06 marks)*
- Q.8 Explain **six** different features which distinguish a market functioning in an environment of perfect competition from a market which operates as a monopoly. *(09 marks)*
- Q.9 Explain what is meant by:
(a) Freely Fluctuating Exchange Regime
(b) Fixed Exchange Rate Regime, and
(c) Managed Floating Exchange Rate Regime *(06 marks)*
- Q.10 What steps are usually adopted by the authorities to control inflationary pressures? *(06 marks)*

(P.T.O.)

Q.11 Select appropriate answer of each of the following Multiple Choice Question (MCQ). Each MCQ carries **ONE** mark.

- (i) Under perfect market conditions, the supply curve of a firm is the same as:
 - (a) MC curve
 - (b) MR curve
 - (c) AR curve
 - (d) AC curve
- (ii) Which of the following products is likely to have the lowest price elasticity of demand?
 - (a) salt
 - (b) cars
 - (c) houses
 - (d) apples
- (iii) Which of the following is a measure of income earned by a factor of production?
 - (a) indirect taxes
 - (b) depreciation
 - (c) rent
 - (d) corporate taxes
- (iv) Which statement is true of a curve with a constant slope?
 - (a) it is a straight line
 - (b) it is non linear
 - (c) it runs parallel to Y-axis
 - (d) it runs parallel to X-axis
- (v) In a perfectly competitive market _____ is/are the price maker(s):
 - (a) the individual firm
 - (b) the industry
 - (c) a large number of consumers
 - (d) the trade association
- (vi) Which statement is true, in respect of every point on an indifference curve?
 - (a) the price of each good is the same
 - (b) the level of satisfaction is the same
 - (c) all of these statements are true
 - (d) none of these statements is true
- (vii) Which of the following is **NOT** included in the explicit costs of a firm?
 - (a) wages paid to labour
 - (b) interest paid for borrowed capital
 - (c) payments for purchases of materials
 - (d) normal profit
- (viii) In the long-run, price is determined by:
 - (a) cost of production
 - (b) number of consumers
 - (c) influence of tastes and fashion
 - (d) competitive forces
- (ix) The aggregate demand curve would shift to the right if:
 - (a) government taxes increase
 - (b) net exports increase
 - (c) government spending decreases
 - (d) the nominal money supply decreases
- (x) Money does **NOT** function as a:
 - (a) medium of exchange
 - (b) hedge against inflation
 - (c) store of value
 - (d) measure of value
- (xi) Which of the following deposits can **NOT** be withdrawn by cheque?
 - (a) a PLS deposit account
 - (b) a demand deposit
 - (c) a certificate of deposit
 - (d) none of the above
- (xii) Monopoly power may be based on:
 - (a) economies of large scale production
 - (b) patents
 - (c) control of key natural resources
 - (d) all of the above
- (xiii) Which of these is **NOT** a component of cost function of a product?
 - (a) market price of the product
 - (b) operating technology of the plant
 - (c) operating capacity
 - (d) all of the above
- (xiv) Which of the following best defines marginal utility?
 - (a) the satisfaction of a want that results from consuming a good or service
 - (b) the change in total utility as a result of consuming an additional unit of a product
 - (c) the ability to buy more of a product or service when real income increases
 - (d) the decrease in satisfaction that results from consuming an additional unit of a product
- (xv) If the American dollar is overvalued relative to the Pakistan rupee:
 - (a) Pakistani goods are cheaper than US goods
 - (b) the Pakistan rupee is undervalued relative to the dollar
 - (c) the rupee price of the dollar must rise
 - (d) the cost of Pakistani goods in the United states must be increasing

(THE END)



Introduction to Economics and Finance

Foundation Examination – Spring 2011
Module B

March 9, 2011
100 marks - 3 hours

- Q.1 Draw and briefly explain the “Production Possibility Curve”. *(07 marks)*
- Q.2 (a) What do you understand by Perfect Competition? Briefly explain the important conditions which are necessary for the existence of Perfect Competition in a market. *(07 marks)*
(b) Explain with the help of an appropriate diagram, the Equilibrium of a Firm under perfect competition, in the long run. *(07 marks)*
- Q.3 (a) Narrate the basic assumptions applicable to the Indifference Curve Approach. *(03 marks)*
(b) Explain consumer’s equilibrium with the help of a diagram using indifference curves. *(09 marks)*
- Q.4 (a) Explain the relationship between Inflation and Unemployment with the help of a Phillips Curve. *(06 marks)*
(b) (i) Full Employment is achieved when the rate of Unemployment reaches zero. Discuss. *(12 marks)*
(ii) Identify and briefly describe various types of Unemployment. *(12 marks)*
- Q.5 Select appropriate answer from the options available for each of the following Multiple Choice Question (MCQ). **Each MCQ carries ONE mark.**
- (i) Which of the following topics are studied in Macro Economics?
(a) Theory of Demand
(b) Aggregate Demand and Aggregate Supply
(c) Equilibrium of Industry
(d) None of the above
- (ii) Which of the following is **not** a factor of production?
(a) Land (b) Labour (c) Money (d) Entrepreneurship
- (iii) Which of the following is **not** an economic resource?
(a) Air (b) Water (c) Sulphuric acid (d) Books
- (iv) Fiscal deficit can be controlled by reducing:
(a) Taxes (b) Imports (c) Unemployment (d) Public expenditure
- (v) The Purchase power parity theory explains the determination of:
(a) Exchange rates (b) Power tariff (c) Prices (d) Supply of goods
- (vi) Production and employment in which of the following industries would be least affected by recession?
(a) Sugar (b) Steel (c) Garments (d) Vehicles
- (vii) Which of the following is most likely to be affected by change in interest rates?
(a) Consumer spending (b) Investment spending
(c) Government spending (d) Exports

- (viii) Which of the following is **NOT** the function of a central bank?
 (a) Lender of the last resort (b) Monetary policy
 (c) Fiscal policy (d) Credit creation
- (ix) Which of the following is not a function of money?
 (a) Store of value (b) Unit of account
 (c) Standard of deferred payment (d) Payment of interest
- (x) Which of the following is **NOT** a method of note issue?
 (a) Fixed fiduciary issue (b) Proportional reserve system
 (c) Floating exchange system (d) Exchange management
- (xi) The term “Precautionary motive” has been discussed in:
 (a) Quantity theory of money (b) Theory of consumer behaviour
 (c) Liquidity preference theory (d) Multiplier accelerator theory
- (xii) The difference between GDP and GNP consists of:
 (a) Consumption of fixed capital (b) Indirect business taxes
 (c) Public and private transfer payments (d) Net foreign factor income
- (xiii) Which of the following is a direct tax?
 (a) Sales tax (b) Capital gains tax
 (c) Federal excise duty (d) Value added tax
- (xiv) Which of the following is a financial intermediary?
 (a) Pension fund (b) International Monetary Fund
 (c) State Bank of Pakistan (d) Stock exchange
- (xv) Which of the following is a central bank unable to do?
 (a) Influence banks to tighten or loosen their credit policies
 (b) Create a climate of monetary ease or restraint
 (c) Directly set market interest rates
 (d) Influence the interest rate on new treasury bonds

- Q.6 (a) Explain the pricing of factors of production using the Marginal Productivity Theory. *(06 marks)*
 (b) Briefly explain any **four** points of criticism over the Marginal Productivity Theory. *(06 marks)*
- Q.7 Explain with the help of a diagram using the concepts of Aggregate Demand and Aggregate Supply, how equilibrium level of national income is achieved. *(12 marks)*
- Q.8 (a) What do you understand by “Terms of trade”? Explain favourable and unfavourable “Terms of trade” with the help of an example. *(04 marks)*
 (b) Briefly explain the factors which affect the “Terms of trade” of a country. *(06 marks)*

(THE END)



Introduction to Economics and Finance

Foundation Examination
Autumn 2011
Module B

7 September 2011
100 marks – 3 hours
Additional reading time – 15 minutes

Instructions to candidates:

- (i) *All the Questions from Section A are compulsory.*
(ii) *Attempt any TWO out of THREE Questions from Section B.*

Section A

- Q.1 (a) What do you understand by the concept of “Consumer Sovereignty”? (02 marks)
(b) Briefly describe the demerits of Free Market Economy. (07 marks)
- Q.2 (a) What is meant by “Competitive goods” and “Complementary goods”? Give two examples of each. (04 marks)
(b) Explain briefly the factors which determine the Price Elasticity of Demand. (06 marks)
(c) Illustrate the relationship between the price and quantity demanded with the help of a diagram when the price elasticity of demand is Elastic, Unitary Elastic and Inelastic. (Explanation is not required) (06 marks)
- Q.3 (a) What is “Price Discrimination”? Identify and describe briefly the conditions under which a monopolist can keep the sub-markets separate for exercising price discrimination. (10 marks)
(b) How a firm can improve its profits by using price discrimination? (Diagram is not required) (06 marks)
(c) Briefly explain the concept of economies and diseconomies of scale. (04 marks)
- Q.4 Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQ). Each MCQ carries ONE mark.
- (i) Following concept is **NOT** illustrated by the Production Possibility Curve:
(a) efficiency (b) opportunity cost (c) equity (d) trade-off
- (ii) If the market price of a product increases from Rs. 35 to Rs. 40 and in response, the quantity demanded decreases from 1400 units to 1200 units, the value of its price elasticity of demand is:
(a) 0.9 (b) 1 (c) 1.1 (d) 1.2
- (iii) The demand for a Factor of Production is called:
(a) quantity demand (b) derived demand (c) factor price (d) cost of production
- (iv) If the nominal interest rate is 5% and the inflation rate is 2%, then the real interest rate is:
(a) 2% (b) 3% (c) 5% (d) 7%
- (v) On a short-run Phillips Curve, high rates of inflation coincide with:
(a) low interest rates (b) high unemployment rates
(c) low unemployment rates (d) low discount rates
- (vi) A stimulative fiscal policy combined with a restrictive monetary policy will necessarily cause:
(a) gross domestic product to increase (b) gross domestic product to decrease
(c) interest rate to fall (d) interest rates to rise

- (vii) As its output increases, a firm's short-run marginal cost will eventually increase because of:
 (a) diseconomies of scale (b) a lower product price
 (c) the firm's need to break even (d) diminishing returns
- (viii) Which of the following are regarded as withdrawals from the circular flow of income?
 (a) saving and taxation (b) export and import
 (c) investment and saving (d) Government spending and borrowing
- (ix) Which of the following would reduce inflation?
 (a) an increase in direct taxes (b) an increase in indirect taxes
 (c) increase in government spending (d) increase in income
- (x) Which of the following factor is not used in the multiplier formula for the open economy?
 (a) marginal propensity to save (b) marginal propensity to import
 (c) marginal propensity to tax (d) marginal propensity to export
- (xi) When one country is more efficient in the production of a particular good as compared to another country, that country is said to have:
 (a) economies of scale (b) an oligopoly
 (c) comparative advantage (d) absolute advantage
- (xii) All of the following are determinants of supply except:
 (a) price (b) income level
 (c) level of technology (d) objectives of the firms
- (xiii) Which of the following would decrease aggregate demand?
 (a) increased investment (b) increase in export revenue
 (c) increased taxation (d) increased consumption
- (xiv) Which of the following is regarded as an argument in favour of trade protection?
 (a) to protect domestic labour against cheap foreign labour
 (b) to reduce domestic unemployment
 (c) to protect infant industries
 (d) all of the above
- (xv) To counteract a recession, the Central Bank should:
 (a) raise the reserve requirement and the discount rate
 (b) sell securities on the open market and lower the discount rate
 (c) buy securities on the open market and raise the discount rate
 (d) buy securities on the open market and lower the discount rate

Section B

- Q.5 (a) Money has been defined by various economists on the basis of its elementary components. Define money using "Traditional Approach" and "Monetarist Approach". *(04 marks)*
 (b) Identify and explain briefly the different functions of money. *(08 marks)*
 (c) Describe the effects of inflation on the functions of money. *(08 marks)*
- Q.6 (a) What do you understand by the term National Income? *(02 marks)*
 (b) Explain briefly three different ways of measuring the National Income. *(09 marks)*
 (c) Enumerate the difficulties generally faced in measuring National Income. *(09 marks)*
- Q.7 (a) What is meant by the term "Trade Deficit"? Briefly describe the key measures a government may undertake to control the deficit on the country's balance of trade. *(08 marks)*
 (b) Explain briefly different classes of taxes with the help of a diagram. *(06 marks)*
 (c) Give any **one** advantage and disadvantage of each of the above class of taxes. *(06 marks)*

(THE END)



Introduction to Economics and Finance

Foundation Examination
Spring 2012
Module B

7 March 2012
100 marks - 3 hours
Additional reading time - 15 minutes

Instructions to candidates:

- (i) All the Questions from Section A are compulsory.
(ii) Attempt any TWO out of THREE Questions from Section B.

Section A

Q.1 What do you understand by the term Division of Labour? Briefly describe any **four** advantages and disadvantages of Division of Labour. **(10 marks)**

- Q.2 (a) Briefly explain the Law of Equi-Marginal Utility. Also narrate the basic assumptions applicable to the Law of Equi-Marginal Utility. **(05 marks)**
(b) Mr. Khan wants to spend Rs. 100 on two commodities, Rice and Sugar. Following table shows the marginal utility (MU) derived from both of these commodities:

Units of money (Rs.)	MU of Rice	MU of Sugar
20	10	12
40	8	10
60	6	8
80	4	6
100	2	3

Explain briefly Mr. Khan's equilibrium position with the help of a diagram using the principle of Equi-Marginal Utility. **(06 marks)**

- (c) Describe the limitations of the Law of Diminishing Marginal Utility. **(05 marks)**
- Q.3 (a) What is a reserve price? Describe the factors which govern the reserve price of a seller. **(06 marks)**
(b) How do free forces of demand and supply determine equilibrium price and equilibrium quantity? Support your answer with the help of a diagram. **(07 marks)**
(c) Explain briefly why the short-run average cost curve is "U" shaped. **(06 marks)**

Q.4 Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). **Each MCQ carries ONE mark.**

- (i) Which of the following is **NOT** a method for the measurement of price elasticity of demand?
(a) Total outlay (b) Total savings (c) Point method (d) Arc method
- (ii) Which of the following is an example of indirect tax?
(a) Income tax (b) Sales tax (c) Capital gains tax (d) Property tax
- (iii) Index price of exports ÷ Index price of imports is equal to:
(a) Balance of trade (b) Balance of payment
(c) Terms of trade (d) Inflation
- (iv) Which of the following measures would immediately increase the cost of imports?
(a) Tariff (b) Quota (c) Embargo (d) Subsidies

- (v) Increase in Cash Reserve Ratio would:
 (a) Decrease prices (b) Reduce inflation
 (c) Control lending (d) All the above
- (vi) Which of the following is **NOT** a characteristic of oligopolies?
 (a) Mutual dependence (b) Growth through merger
 (c) Large number of firms (d) Non-price competition
- (vii) The curvature of Production Possibility Curve is due to:
 (a) Change in opportunity cost (b) Increase in resources
 (c) Decrease in demand (d) Decrease in supply
- (viii) The four main phases of a business cycle does **NOT** include:
 (a) Depression (b) Inflation (c) Boom (d) Recession
- (ix) Which of the following is **NOT** considered to be a credit instrument?
 (a) IOU (b) Draft (c) Bond (d) Stock
- (x) A contraction in an economy's aggregate output combined with inflation is called:
 (a) Disinflation (b) Deflation (c) Stagflation (d) Recession
- (xi) In the Keynesian theory of demand for money, the transactions demand for money is determined by:
 (a) The rate of interest (b) The level of consumers' income
 (c) Expected changes in consumer prices (d) The amount of money in circulation
- (xii) Identify the key element of a market structure:
 (a) Barriers to entry (b) Barriers to exit
 (c) Product differentiation (d) None of the above
- (xiii) The concept of Multiplier discusses:
 (a) Savings and investments (b) Income and investments
 (c) Income and expenditure (d) Income and savings
- (xiv) Currency is usually devalued to:
 (a) Increase exports (b) Increase imports
 (c) Decrease inflation (d) Increase prices
- (xv) A firm that breaks even after all the economic costs are paid, is earning:
 (a) Economic profit (b) No profit
 (c) Normal profit (d) Super normal profit

Section B

- Q.5 (a) What is meant by Direct and Indirect taxes? Enumerate the features of a good tax system. *(08 marks)*
 (b) Discuss **four** advantages and disadvantages of paper money. *(08 marks)*
 (c) What is meant by public debt and how can the government reduce its size? *(04 marks)*
- Q.6 (a) Explain briefly the Accelerator Principle. Identify and explain any **five** limitations of Accelerator Principle. *(08 marks)*
 (b) Describe the objectives of World Trade Organization. *(06 marks)*
 (c) Explain with the help of a diagram, the shut down point of a firm under perfect competition. *(06 marks)*
- Q.7 (a) State briefly how a government can influence the level of private investment in the country. *(10 marks)*
 (b) Explain by means of a diagram the concept of deflationary gap in the economy. *(06 marks)*
 (c) Briefly discuss any **four** unfavourable consequences of unemployment. *(04 marks)*

(THE END)



Introduction to Economics and Finance

Foundation Examination
Autumn 2012
Module B

5 September 2012
100 marks - 3 hours
Additional reading time - 15 minutes

Instructions to candidates:

- (i) *All the Questions from Section A are compulsory.*
(ii) *Attempt any TWO out of THREE Questions from Section B.*

Section A

- Q.1 What is economic wealth? What attributes the goods must possess to be considered as wealth? Identify the classes of ownership of wealth and give **four** examples of each. **(08 marks)**
- Q.2 (a) What do you understand by the terms Iso-cost line and Iso-quant curve? How does a producer maximize his level of output? Support your answer with the help of a diagram. **(11 marks)**
(b) What is meant by “Decreasing returns to scale”? Describe its main causes. **(06 marks)**
- Q.3 (a) Explain with the help of an appropriate diagram, the price output determination under monopolistic competition in the short-run. **(10 marks)**
(b) Briefly explain the factors on which the size of a market depends. **(10 marks)**
- Q.4 Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). **Each MCQ carries ONE mark.**
- (i) Which one of the following is a basic economic problem?
(a) Unlimited wants and scarce resources (b) Lower incomes and higher indirect taxes
(c) Unemployment and inflation (d) Recession
- (ii) Which one of the following is part of the primary sector of an economy?
(a) Banking (b) Transport (c) Farming (d) Textile industries
- (iii) Which of the following has the most inelastic demand?
(a) Fuel (b) Wheat (c) Meat (d) Sugar
- (iv) Which of the following is **NOT** considered to be a protectionist measure?
(a) Tariff (b) Exchange control regulations
(c) Export subsidies (d) Free imports
- (v) Which one of the following is **NOT** a feature of a good tax system?
(a) It should be equitable (b) It should be economical
(c) The rate should be same for everybody (d) It should be certain
- (vi) When will savings increase in a country?
(a) When interest rate rises (b) When inflation increases
(c) When more credit cards are issued by the banks (d) When production of consumer goods decreases
- (vii) Demand curve slopes downward because of:
(a) Consumer indifference (b) Elasticity of demand
(c) Inelastic demand (d) Law of diminishing marginal utility

- (viii) The supply curve of a factor for a firm that is in perfect competition in the input market is:
 (a) Elastic (b) Inelastic
 (c) Perfectly elastic (d) Perfectly inelastic
- (ix) A prolonged and deep recession is called:
 (a) Hyperinflation (b) Depression
 (c) Stagflation (d) Great depression
- (x) The GDP deflator is the:
 (a) Ratio of nominal GDP to real GDP multiplied by 100 (b) Ratio of real GDP to nominal GDP multiplied by 100
 (c) Difference between real GDP and nominal GDP multiplied by 100 (d) Difference between nominal GDP and real GDP multiplied by 100
- (xi) The aggregate supply curve:
 (a) is the sum of the individual supply curves in the economy (b) is a market supply curve
 (c) embodies the same logic that lies behind an individual firm's supply curve (d) none of the above
- (xii) Economic growth in an industrial society results from:
 (a) Technological change (b) Innovation
 (c) Capital production (d) All of the above
- (xiii) Which of the following is **NOT** a method of holding wealth?
 (a) Bonds and equities (b) Human wealth
 (c) Consumer durables (d) Commodities
- (xiv) Which of the following instruments are **NOT** traded in the capital market?
 (a) Corporate bonds (b) Treasury bills
 (c) Mortgages (d) Shares
- (xv) The quantities of domestic goods given up to obtain a unit of imported goods is called:
 (a) Balance of trade (b) Terms of trade
 (c) Substitution effect (d) Balance of payment

Section B

- Q.5 (a) What do you understand by the terms **GDP**, **GNP** and **NNP**? Briefly describe GDP at market price and GDP at factor cost. *(08 marks)*
 (b) Determinants of consumption function do not change in short run. Explain. *(12 marks)*
- Q.6 (a) Describe the **four** major objectives of a government's economic policy. *(06 marks)*
 (b) Explain how monetary and fiscal policies can be used to achieve the above objectives. *(06 marks)*
 (c) What do you understand by the term "Financial intermediary"? Give example. Briefly describe their role in an economy with the help of a flow chart. *(08 marks)*
- Q.7 (a) Briefly describe the main causes of disequilibrium in the balance of payments. *(07 marks)*
 (b) State the measures for rectifying disequilibrium in the balance of payments. *(07 marks)*
 (c) Briefly describe **three** types of exchange rate polices which governments usually adopt for determination of exchange rate. *(06 marks)*

(THE END)