



The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examinations

4 September 2014
3 hours – 100 marks
Additional reading time – 15 minutes

Introduction to Economics and Finance

Instructions to candidates:

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

Section A

- Q.1 (a) State the meaning of 'price elasticity of supply'. Briefly discuss different types of elasticity of supply. (05)
(b) Briefly explain the factors which determine the price elasticity of supply. (05)

- Q.2 The following data refers to the revenue and costs (**in million rupees**) of a firm.

Output (units)	0	1	2	3	4	5	6	7	8
Total revenue	-	50	100	150	200	250	300	350	400
Total costs	110	140	162	175	180	185	194	219	269

- (a) Briefly explain the concept of fixed costs with reference to the above data. (02)
(b) Determine the marginal revenue at each level of output and interpret the results. (04)
(c) What level of output will the firm aim to produce and what would be the amount of profit that the firm will make at this level? (04)
- Q.3 Briefly discuss the important features of 'Islamic economic system'. (08)
- Q.4 (a) State the main features of monopoly and name any one organisation which operates under monopoly. (03)
(b) Briefly explain the 'monopolist's equilibrium' with the help of a schedule. (04)
- Q.5 Select the most 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** an issue in macroeconomics?
(a) issues relating to balance of payment
(b) determination of prices in the agricultural sector
(c) relationship between inflation and unemployment
(d) possible effect of a budget deficit on the level of investment
- (ii) If peas and beans are substitutes of each other, an increase in the price of peas will:
(a) increase the quantity of beans demanded
(b) increase the price of beans and the quantity sold
(c) decrease the quantity of peas sold
(d) all of the above
- (iii) Period of a business cycle in which real GDP is increasing is called:
(a) recovery (b) downturn (c) recession (d) trough

- (iv) ABC Limited employs 100 skilled workers at a wage rate of Rs. 2,800 per week. To attract 10 more workers it raises the wage rate to Rs. 3,000 per week. The marginal cost of employing the extra workers is:
 (a) Rs. 20,000 (b) Rs. 30,000 (c) Rs. 50,000 (d) Rs. 200
- (v) The financial market which is used to raise short term finance is called:
 (a) capital market (b) money market
 (c) derivative market (d) bond market
- (vi) The main advantage of a mutual fund is that:
 (a) it provides short term finance for investment in capital and money market
 (b) it provides long term finance for investment in capital and money market
 (c) it gives opportunity to investors to invest in a diversified portfolio
 (d) none of the above
- (vii) An investor who acquires a put option:
 (a) buys the right to buy shares at a particular price
 (b) buys the right to sell shares at a particular price
 (c) sells the right to buy shares at a particular price
 (d) sells the right to sell shares at a particular price
- (viii) A deflationary gap exists in an economy when:
 (a) aggregate demand is less than the full employment level of income
 (b) injections exceed withdrawals at the full employment level of income
 (c) the government has a budget surplus
 (d) none of the above
- (ix) The four main phases of business cycle are:
 (a) boom, inflation, recession and recovery
 (b) inflation, recession, recovery and boom
 (c) recession, downturn, recovery and growth
 (d) boom, downturn, recession and recovery
- (x) Fiscal deficit can be controlled by:
 (a) increasing taxes (b) reducing subsidies
 (c) reducing public expenditure (d) all of the above
- (xi) Demand curve slopes downward because of:
 (a) consumer indifference (b) elasticity of demand
 (c) inelastic demand (d) law of diminishing marginal utility
- (xii) Which of the following best defines marginal utility?
 (a) satisfaction of a want that results from consuming a good or service
 (b) change in total utility as a result of consuming an additional unit of a product
 (c) ability to buy more of a product or service when real income increases
 (d) change in average satisfaction that results from consuming an additional unit of a product
- (xiii) 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
- (xiv) An option that protects profit after the underlying asset has experienced a significant gain is called:
 (a) forward (b) collar (c) swap (d) call option
- (xv) An instrument whose price is dependent on one or more underlying asset(s) is called:
 (a) share (b) certificate of deposit
 (c) derivative (d) treasury bill

Section B

- Q.6 (a) An increase in 'GDP' and 'financial innovation' are the two important factors that influence the total demand for money in an economy.
- Briefly explain with the help of suitable diagrams, how each of the above factors affects the quantity of money demanded in an economy. (06)
- (b) What is Keynesian liquidity trap? Identify any three policies which can help to break out of the liquidity trap. (04)
- Q.7 (a) What do you understand by the terms 'floating exchange rate' and 'fixed exchange rate'? List **three** advantages of each of the above types of exchange rates. (07)
- (b) Identify the reasons why a government may want to influence exchange rate. (03)
- Q.8 Analyse the effect of imposition / increase of indirect taxes on producers and consumers and its relationship with the elasticities of demand and supply. (10)
- Q.9 (a) Explain what is meant by the term 'balance of payments deficit'. (03)
- (b) Discuss the difference between 'financing' a balance of payments deficit and 'correcting' that deficit. (07)
- Q.10 (a) Describe the **four** major objectives of a government's economic policy. (06)
- (b) What role does monetary policy play in achievement of the above objectives? (02)
- (c) List any **four** tools that a central bank may use to implement its monetary policy. (02)
- Q.11 (a) Draw a diagram of Circular Flow of Income. (04)
- (b) List **three** types of 'Withdrawals' and 'Injections' from/into the Circular Flow of Income. (03)
- (c) Explain the effect of an increase in household savings rate on an economy. (03)
- Q.12 (a) What is meant by the term 'Recession'? What economic characteristics are commonly observed during recessionary periods? (06)
- (b) Briefly describe 'Demand deficient unemployment' and 'Structural unemployment'. (04)

(THE END)