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FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BPS-17 UNDER THE FEDERAL GOVERNMENT, 2001.

ECONOMICS, PAPER-I

TIME ALLOWED: THREE HOURS MAXIMUM MARKS: 100

NOTE: Attempt **FIVE** questions in all, including question **No.8** which is **COMPULSORY**. All questions carry **EQUAL** marks.

1. What is the most important determinant of consumer spending? Are there determinants other than the one mentioned above? If so, explain.

2. "GNP is a monetary measure". Explain. In what way is GNP different from GDP? Describe two important methods of measuring GDP.

3. What is the Multiplier Effect? What relationship does the marginal propensity to consume(MPC) bear to the Multiplier and the marginal propensity to save (MPS)? What will the size of Multiplier be when the MPS is 0; 0.4; 0.6 and 1?

4. What items constitute money supply in Pakistan? What determines value of money and why is it important for money supply to be elastic i.e. capable of increasing/decreasing in size?

5. "When a commercial bank makes loan, it creates money; when loans are retired, money is destroyed". Explain.

6. What is deficit financing? Why is it resorted to in developing countries like Pakistan?

7. Import tariff protection was used as a forceful policy instrument in the past to establish investment priorities in the developing countries. Discuss the economic implications of reducing import tariff to the minimum globally under auspices of WTO Conventions to which Pakistan is a signatory.

COMPULSORY QUESTION

8. Write only the correct answers in the Answer Book. Do not reproduce the questions.

(1) Budgetary Deficit refers to:
- (a) Total Revenue Receipts minus Total Expenditures
- (b) Fiscal Deficit minus Interest Payments
- (c) Total Receipts (Revenue Account + Capital Account) Minus Total Expenditures (Revenue + Capital)
- (d) None of the above.

(2) Increase in the number of buyers in the market would lead to a shift of the demand curve to:
- (a) the right
- (b) the left
- (c) upwards along the curve
- (d) None of the above.

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(3) Balance of Trade Deficit refers to:
- (a) Excess of payments for import of goods and services over receipts from exports of goods and services
- (b) Excess of receipts from commodity exports minus payments for imports of goods
- (c) Payments for commodity imports minus receipts from commodity exports
- (d) None of the above.

(4) A monopolist gains more if:
- (a) elasticity of demand for his product is low comparatively
- (b) elasticity of demand for his product is high comparatively
- (c) demand elasticity does not change.
- (d) None of the above .

(5) Devaluation of Pak. Rupee in the 1990's led to:
- (a) Increase in exports
- (b) Increase in imports
- (c) Increase in both exports and imports
- (d) None of the above.

(6) Most sophisticated models of economics growth are based on:
- (a) realistic assumptions
- (b) unrealistic assumptions
- (c) on assumptions, at least some of which are extremely difficult to be proved as valid
- (d) None of the above.

(7) Real GDP refers to:
- (a) GDP, at constant prices
- (b) GDP, at current prices over time
- (c) GDP, at nominal prices over time
- (d) None of the above.

(8) Terms of trade refer to:
- (a) unit price for commodity import
- (b) Value of exports vs Value of imports
- (c) Exchange rate applicable to foreign trade of a country
- (d) None of the above.

(9) Cost – push inflation is the result of:
- (a) increase in the production cost
- (b) increase in the price of industrial production
- (c) escalation of international prices
- (d) None of the above.

(10) Competitive market comprises:
- (a) large number of buyers
- (b) large number of firms
- (c) large number of both buyers and producers
- (d) None of the above.

(11) A monopolist maximizes his profit at a point where:
- (a) His average cost curve meets the marginal revenue curve
- (b) His marginal cost = marginal revenue
- (c) His average cost = market price of market
- (d) None of the above.

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(12) Under perfect competition, a firm would maximize profit at a point where:
(a) average revenue = average cost
(b) marginal cost = average revenue
(c) marginal cost = marginal revenue
(d) None of the above.

(13) Foreign trade differs from domestic trade:
(a) because of terms of trade
(b) due to differences in production costs
(c) because of territorial differences
(d) None of the above.

(14) World Trade Organization is:
(a) the same thing as UNCTAD
(b) the same as WHO
(c) a replacement of UNCTAD
(d) None of the above.

(15) Major sources of revenue in Pakistan's Budget:
(a) have not changed in the 1990's
(b) have drastically changed in the nineties
(c) have changed slightly in the nineties
(d) None of the above.

(16) Main heads of expenditure in Pakistan's Budget (in ascending order) are:
(a) Foreign debt, Development, Defence
(b) Defence, foreign debt, development
(c) Development, Defence and foreign debt
(d) None of the above.

(17) Increase in Foreign Exchange reserves causes:
(a) inflation (b) deflation
(c) No increase in price level (d) None of the above.

(18) Pakistan's Budget deficit is financed by:
(a) Revenue Budget surplus
(b) Borrowings (both bank and non-bank)
(c) Foreign resource inflow
(d) None of the above.

(19) Most important economic indicator of the health of an economy is:
(a) Income per capital (b) National output
(c) Literacy rate (d) None of the above.

(20) Most important catalyst in economic growth is:
(a) savings and investment (b) technology and skills
(c) both at (a) and (b) (d) None of the above.

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NOTE: Attempt **FIVE** questions in all, including question No.8 which is **COMPULSORY**. All questions carry **EQUAL** marks.

1. Discuss the role of foreign aid in the development strategy of Pakistan development budget.

2. What are characteristic reasons of the failings of economic planning in Pakistan?

3. Amplify to differentiate the terms of GNP and GDP and discuss the contribution of agriculture sector v/s industrial sector in the GDP of Pakistan.

4. Write an essay on the scope of introduction of interest free banking in Pakistan.

5. What do you know of tax reforms in Pakistan in recent months? What are the basic reasons of the failure of increasing the tax-net?

6. Clarify the distinction between any two of the following:
   (a). Public Finance v/s Private Finance
   (b). Foreign Remittances vis Export Earnings
   (c). Agriculture tax vis Value added tax.
   (d). Budget estimates vis PSDP.

7. What do you understand of cash crops? What important role cash crops play, in export earnings of Pakistan?

COMPULSORY QUESTION

8. Write the correct answer in the answer book. Do not reproduce the question.

(A)

(1) External debt servicing is greater than:
   (a) Social sector spending (b) Defense spending
   (c) Agriculture servicing (d) Industrial sector investment
   (e) None of these.

(2) Pakistan foreign earnings largely depends on:
   (a) Agricultural products (b) Industrial products
   (c) Overseas Pakistanis remittances (d) Software exports
   (e) None of these.

(3) Nationalization of 70s in Pakistan has done:
   (a) More good to the economy (b) More harm to the economy
   (c) Has not affected the economy substantially
   (d) Has not been effective considerably
   (e) None of these.

(4) The largest revenue collection is through:
   (a) Income tax (b) GST (c) Customs duty
   (d) Wealth tax. (e) None of these.

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(5) Per-capita income in Pakistan in the last 5 years is:
(a) Increasing substantially (b) Decreasing marginally
(c) Constant largely
(d) Increasing in the first two years, but decreasing in the subsequent three years.
(e) None of these.

(6) The economic growth rate in Pakistan in the last 5 years is:
(a) Declining in trend (b) Static almost
(c) Increasing flatulently (d) Improving constantly
(e) None of these.

(7) The GDP growth in Pakistan largely depends on:
(a) Manufacturing sector (b) Agricultural sector
(c) Service sector (d) None of these.

(8) Large scale manufacturing sector growth rate in Pakistan in the last financial year was about:
(a) 15% (b) 10% (c) 5% (d) 0% (e) None of these.

(9) Which is the highest body to approve the public sector financial outlay.
(a) DDWP (b) CDWP
(c) ECNEC (d) NEC (e) None of these.

(10) Education spending as share of the budget in Pakistan is nearly:
(a) 15% (b) 12% (c) 10% (d) 8% (e) None of these.

(B) Indicate either the following statements are true or false. Explain your answer.

(11) Due to inflation the nominal GNP of Pakistan is increasing while its real GNP is falling.
(12) Since the freezing of Foreign accounts, GDP of Pakistan is greater than its GNP.
(13) Pakistan's balance of trade is in deficit owning to continue devaluation of the Pak Rupee.
(14) In contrast to "Heckschers-Ohlin" theorem Pakistan is exporting labour intensive goods while importing capital-intensive commodities.
(15) The privatization commission of Pakistan is in fact a follow-up of demand side policy.
(16) The establishment of Khushali Bank is a follow-up of supply side policy.
(17) The failure of monetary policy in Pakistan owning to less sensitivity of investment demand to rate of interest.
(18) Due to tax consumption allowance, the government employees in Pakistan are in fact paying low tax per Rupees earned.
(19) Devaluation of Pak currency definitely causes an increase in foreign debt in real terms, but not in nominal terms.
(20) Government of Pakistan mainly borrows from general public by selling its securities.

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