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FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN PBS-17, UNDER THE FEDERAL GOVERNMENT, 2003

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. Write clearly.

1. Discuss which of the three approaches explain better consumer behaviour and why?
2. Show and explain the conditions of output maximization and cost minimization.
3. Explain how the modern theory of interest (IS – LM) model came into being and how is it different than the other theories?
4. Explain stagflation and give a viable strategy to overcome this phenomenon.
5. It is desirable to have a larger proportion of direct taxes in the taxation structure. Explain why? Also explain, why in a developing country like Pakistan, efforts to raise the share of direct taxes have not met with success.
6. Critically examine the theory of comparative cost.
7. Write notes on the followings:-
   (i) Role of IMF and its impact on developing economies.
   (ii) Government expenditure and economic development.

COMPULSORY QUESTION

8. Write only the correct answers in the answer book. Don't reproduce the questions.

   (1) Total revenue receipts are maximum at that point on a demand curve where price elasticity is:
   (a) Increasing (b) Decreasing
   (c) Unitary (d) None of these.

   (2) Which of the following products will have an elastic demand:
   (a) Flour (b) Cloth
   (c) Honda City (d) None of these.

   (3) Price controls are:
   (a) Necessary for consumer's welfare
   (b) A must to check inflation
   (c) Doomed to fail.
   (d) None of these.

   (4) Increase in minimum wage:
   (a) Helps in controlling unemployment
   (b) Increases unemployment
   (c) Reduces wage bill
   (d) None of these.

   (5) An indifference curve gives:
   (a) The actual combination of goods that consumer chooses.
   (b) The minimum choice of the consumer.
   (c) The highest level of satisfaction.
   (d) None of these.

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(6) MRS_{xy} being 6 means:
- (a) Consumer is willing to give up 6 units of x for one of y.
- (b) Preference for y is 6 times that of x.
- (c) Both of the above.
- (d) None of these.

(7) Consider cardinal measure of utility, increase in consumption will:
- (a) Increase marginal utility.
- (b) Will not average utility.
- (c) Both (a) and (b).
- (d) None of these.

(8) In pure competition:
- (a) Strong rivalries exist
- (b) Cartels are formed
- (c) Both (a) and (b).
- (d) None of these.

(9) National incomes include:
- (a) Undistributed corporate profits
- (b) Fringe benefits
- (c) Both (a) and (b)
- (d) None of these.

(10) Personal income is obtained by adding which item(s) to national income:
- (a) Govt. transfer payments.
- (b) Business transfer payments
- (c) Both (a) and (b).
- (d) None of these.

(11) Which of the following is a stock variable:
- (a) Gross private domestic investment
- (b) Personal savings
- (c) Both (a) and (b).
- (d) None of these.

(12) Find out the True Statement(s):
- (a) When aggregate supply exceeds aggregate demand, output rises.
- (b) If intended investment exceeds savings, output falls.
- (c) Both (a) and (b).
- (d) None of these.

(13) When un-intended investment is positive:
- (a) Output tends to rise.
- (b) Output tends to fall
- (c) Output is in equilibrium.
- (d) None of these.

(14) With no government and foreign trade sectors, savings always equals:
- (a) Intended investment
- (b) Realised investment
- (c) Both (a) and (b).
- (d) None of these.

(15) If MPC=2/3, the investment multiplier is:
- (a) 2/3
- (b) 1/3
- (c) 3/2
- (d) None of these.

(16) Find out the True statement(s):
- (a) When consumption function is linear, the mpc = apc.
- (b) The short run consumption function has a steeper slope than that of the LR.
- (c) Both (a) and (b).
- (d) None of these.

(17) If Union Bank has demand deposits of Rs.25 million, no time deposits and required reserves of Rs.7.5 million, the legal reserve requirement ratio must be:
- (a) 3.3%
- (b) 333%
- (c) 40%
- (d) None of these.

(18) Which of the following is likely to be longer for monetary policy than for fiscal policy?
- (a) The implementation lag
- (b) The recognition lag
- (c) Both (a) and (b).
- (d) None of these.

(19) The number of income tax payers in Pakistan is:
- (a) 2 million
- (b) 0.7 million
- (c) 1 million
- (d) None of these.

(20) The impact and incidence of sales tax is:
- (a) On the consumer
- (b) On the seller
- (c) On the producer
- (d) None of these.

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1. Perpetual budget deficits indicate that governments in Pakistan have been 'die-hard' Keynesian. That legacy still being there, discuss the rationale of endorsing the neo-classical counter-revolution, as witnessed by both privatization and the increasing role of the private sector in Pakistan's economy.
2. "The debate on 'growth and equity' trade-off that ensued in the second half of the 1960s, was largely responsible for the subsequent paradigm shift. However, the economic and social indicators in the 1970s, scarcely justified the latter". Discuss.
3. Do you agree that numerous structural imbalances are seriously hampering Pakistan's sustainable development, and sooner they are redressed is better, even if the process involves compromising short-run growth targets?
4. Differentiate between the private and the social rate of return. Do you agree that public spending on health and education for maximizing the latter? What in your opinion is the respective state of affairs in Pakistan?
5. Differentiate between foreign portfolio and foreign direct investment, and discuss the relative merits and demerits of the each type for a country like Pakistan.
6. "There are some believe that in the early 1960s, Pakistan was at the take-off stage of the Rostow's scheme of growth. However, a close study of the latter indicates that Pakistan, in many ways, has jumped into the last stage now, without-ever having transcended even the second stage of growth". Discuss.
7. Compare the performance of Pakistan's agricultural pricing policy with that of the Common Agricultural Policy (CAP) and the Farm Support Program of the U.S. of America.

COMPULSORY QUESTION

8. Write only the correct answer in the Answer Book. Do not reproduce the question.

(1) Balance of payments deficit implies:
(a) Deficit in the current account (b) Deficit in the Capital account
(c) Deficit in the trade balance (d) All of these.
(e) None of these.

(2) Pakistan's major trading partners are:
(a) Japan and China (b) Islamic countries
(c) Western Europe and U.S.A (d) Both a & b
(e) None of these.

(3) Pakistan became a member of Multifibre Arrangements (MFA) in:
(a) 1950s (b) 1960s
(c) 1970s (d) None of these.

(4) Presently, in Pakistan the largest contribution to GDP is made by the:
(a) Primary sector (b) Secondary sector
(c) Tertiary sector (d) None of these.

(5) The tertiary sector includes:
(a) Professional services (b) Transport services
(c) Distributive services (d) All of these.
(e) None of these.

(6) Pakistan's custom duty rates are highest on:
(a) Intermediate goods (b) Consumer goods
(c) Basic raw materials (d) Chemicals and components.
(e) None of these.

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(7) In the textiles sector of Pakistan, the largest number of firms belongs to:
(a) Integrated textile mills (b) Independent Weaving units
(c) Power looms sector (d) None of these.

(8) The largest number of sugar mills working in Pakistan is in:
(a) Sindh (b) Punjab
(c) NWFP (d) None of these.

(9) SMEDA is an acronym for:
(a) Southern Motorway Engineering and Development Authority
(b) Sindh Microclimate and Environmental Design Agency
(c) Salinity Management and Environmental Development Authority.
(d) None of these.

(10) The region receiving the smallest share of FDI inflows to developing countries is:
(a) Latin America and Caribbean (b) East and South East Asia
(c) South Asia (d) None of these.

(11) The largest source of FDI in Pakistan is:
(a) Germany (b) Canada
(c) Korea (d) None of these.

(12) In Pakistan, the largest sectoral share of FDI goes to:
(a) Power (b) Textiles
(c) Financial business (d) None of these.

(13) In Pakistan the average annual size of the Gini-coefficient was highest in:
(a) 1960s (b) 1970s
(c) 1980s (d) 1990s.
(e) None of these.

(14) The average annual GDP growth rate in Pakistan has been lowest in:
(a) 1960s (b) 1970s
(c) 1980s (d) 1990s.
(e) None of these.

(15) After defense, the largest share of Pakistan government's current expenditures goes to:
(a) General administration (b) Current subsidies
(c) Socio-economic and community services
(d) None of these.

(16) The largest revenue source of Pakistan's governments comes from:
(a) Direct taxes (b) Custom duties
(c) Sales taxes (d) None of these.

(17) The internal outstanding debt in Pakistan is:
(a) Greater than the GDP (b) About a quarter of the GDP
(c) About 3 quarters of the GDP (d) None of these.

(18) Major part of foreign aid to Pakistan comes from:
(a) Consortium countries (b) Islamic countries
(c) Non-consortium countries (d) Both (b) and (c).

(19) Pakistan's external outstanding debt is:
(a) More than her GDP (b) About half of her GDP
(c) A little over one third of her GDP
(d) None of these.

(20) In Pakistan, Public Sector expenditures on education are:
(a) 10% of GDP (b) 7% of GDP
(c) 5% of GDP (d) None of these.

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