FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR
RECRUITMENT TO POSTS IN BPS-17 UNDER
THE FEDERAL GOVERNMENT, 2009

ECONOMICS, PAPER-I

S.No.	
R.No.	

TIME ALLOWED:	(PART-I) 30 MINUTES	MAXIMUM MARKS:20
	(PART-II) 2 HOURS & 30 MINUTES	MAXIMUM MARKS:80

NOTE: (i) **First** attempt **PART-I (MCQ)** on separate **Answer Sheet** which shall be taken back after **30 minutes.**
(ii) **Overwriting/cutting of the options/answers will not be given credit.**

PART – I (MCQ)
(COMPULSORY)

Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (20)

(i) Modern microeconomic theory generally regards utility as:
(a) cardinal (b) ordinal
(c) independent (d) Republican

(ii) A basic assumption of the theory of consumption choice is that:
(a) the consumer tries to get on the highest indifference curve
(b) the consumer tries to get the most of good Y
(c) the budget line is concave
(d) none of these

(iii) The substitution effect must always be:
(a) positive (b) negative
(c) zero (d) bigger than the income effect

(iv) The income effect:
(a) must always be negative (b) must always be positive
(c) can be negative or positive (d) must be smaller than substitution effect

(v) Normal goods experience an increase in consumption when:
(a) real income increase (b) real income falls
(c) price rises (d) tastes change

(vi) The demand for a good is price inelastic if:
(a) the price elasticity is one (b) the price elasticity is less than one
(c) the price elasticity is greater than one (d) all of these

(vii) A demand curve with unitary elasticity at all points is:
(a) a straight line (b) a parabola
(c) a hyperbola (d) all of these

(viii) The marginal product equals the average product when the latter is:
(a) ½ of its maximum value (b) ¼ of its maximum value
(c) equals to its maximum value (d) equals to its minimum value

(ix) A firm's aspiration level is:
(a) its profits last year
(b) the boundary between "satisfactory" and "unsatisfactory" outcomes.
(c) its highest previous profit level (d) none of these

(x) The firm's cost functions are determined by:
(a) the price of its product (b) its assets
(c) its production function (d) the age of the firm

(xi) The following industry often is a natural monopoly:
(a) cigarette industry (b) publishing industry
(c) drug industry (d) electric power industry

(xii) Recognizing that the assumptions of perfect competition never hold at all precisely, the perfectly competitive model is:
(a) interesting mainly for academic studies
(b) outmoded and seldom used even by academic economists
(c) of considerable use to industrial economists, as well as academic economists
(d) all of these

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(xiii) Under perfect competition, rivalry is:
- (a) impersonal
- (b) very personal and direct, advertising being important
- (c) nonexistent since the firms cooperate
- (d) all of these

(xiv) If average total cost is less than marginal cost at its profit-maximizing output, a perfectly competitive firm:
- (a) will make positive profit
- (b) will operate at a point to the right of the minimum point on the average total cost curve
- (c) will not discontinue production
- (d) all of these

(xv) Monopolies arise as a consequence of:
- (a) patents
- (b) control over the supply of a basic input
- (c) franchise
- (d) all of these

(xvi) A monopolistic firm will expand its output when:
- (a) marginal revenue exceeds marginal cost
- (b) marginal cost exceeds marginal revenue
- (c) marginal cost equals marginal revenue
- (d) marginal revenue is negative

(xvii) A monopolist will never produce at a point where:
- (a) demand is price-inelastic
- (b) demand is price-elastic
- (c) marginal cost is positive
- (d) marginal cost is increasing

(xviii) When demand is elastic:
- (a) a fall in price is more than offset by an increase in quantity demanded, so that total revenue rises.
- (b) the good is probably a necessity, so price has little effect on quantity demanded
- (c) a rise in price will increase total revenue, even though less is sold.
- (d) buyers are not much influenced by prices of competing proceduts

(xix) If the price elasticity of demand for product is 0.5, this means that:
- (a) a 1 percent change in price will change quantity demanded by 50%
- (b) a 1 percent increase in quantity demanded is associated with a 0.5 percent fall in price
- (c) a 1 percent increase in price is associated with 0.5% fall in quantity demanded
- (d) a 1 percent increase in price will cause a 0.5% increase in quantity demanded.

(xx) Price elasticity of demand for a commodity tends to be greater:
- (a) the more of a necessity it is
- (b) the more substitutes there are for it
- (c) over shorter time periods
- (d) the lower the price.

PART – II

NOTE:	**(i)** **PART-II** is to be attempted on the separate **Answer Book.** **(ii)** Attempt **ONLY FOUR** questions from **PART-II**. All questions carry **EQUAL** marks. **(iii)** Extra attempt of any question or any part of the attempted question will not be considered.

Q.2. Critically examine the elasticity of demand with reference to Price of the commodity and Income of the consumer. **(20)**

Q.3. Differentiate between Perfect Competition and Monopoly. Which one is followed by the real world? If not, then name the existing one. **(20)**

Q.4. Explain the Keynesian Consumption Function with suitable examples. **(20)**

Q.5. Why we demand for Money? Explain each one of them. **(20)**

Q.6. It is said that “Consumer Financing through Banking system is dangerous”. Explain **(20)**

Q.7. Differentiate between Balance of Trade and Balance of Payments with suitable examples. **(20)**

Q.8. “Economic Growth is linked to the Development of Banking System.” Explain. **(20)**

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ECONOMICS, PAPER-II

S.No.	
R.No.	

TIME ALLOWED:	(PART-I) 30 MINUTES	MAXIMUM MARKS:20
	(PART-II) 2 HOURS & 30 MINUTES	MAXIMUM MARKS:80

NOTE: (i) **First** attempt **PART-I (MCQ)** on separate **Answer Sheet** which shall be taken back after **30 minutes.**
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PART – I (MCQ)
(COMPULSORY)

Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (20)

(i) Ceteris paribus is a Latin term meaning:
(a) "one by one" (b) "equal under the law."
(c) "other things being equal." (d) "in accordance with the law."

(ii) The slope of a curve is:
(a) constant in the case of a straight line (b) positive in the case of a direct relationship
(c) negative in the case of an inverse relationship
(d) equal to the change in vertical movement divided by the change in horizontal movement.

(iii) If the quantity of X increases whenever the price of X decreases, one can conclude that:
(a) the relationship between the price and the quantity of X is direct
(b) the relationship between the price and the quantity of X is inverse
(c) the relationship between the price and the quantity of X is linear
(d) the relationship between the price and the quantity of X is nonlinear

(iv) A simultaneous decrease in demand and supply will always result in:
(a) a decrease in the equilibrium price (b) an increase in the equilibrium price
(c) a decrease in the equilibrium quantity (d) an increase in the equilibrium quantity

(v) The marginal utility of a good refers to the:
(a) total utility of the good prior to consumption of the last unit
(b) extra utility associated with consuming another unit of the good
(c) utility associated with consuming an alternative good
(d) consumer surplus associated with the consumption of an alternative good

(vi) When a firm is experiencing economies of scale:
(a) the MP curve slopes upward (b) the LRAC curve slopes downward
(c) diminishing returns to labor have been suspended (d) the MC curve slopes downward

(vii) Actual GDP may exceed potential GDP for a short period of time when:
(a) the unemployment rate is high
(b) plants run extra shifts that ordinarily are not scheduled.
(c) plants are shut down to remove old equipment and install new equipment
(d) any or all of the above occur.

(viii) An example of frictional unemployment is:
(a) workers at General Motors plants laid off because of slow car sales.
(b) steel workers laid off by plant closings.
(c) a teenager who has quit work at McDonald's waiting to take a job next week at the car wash
(d) Inner-city welfare mothers taking classes to earn high-school equivalency degrees.

(ix) If inflation is expected to be 5 percent in the coming year and the nominal interest rate is 8 percent, then the real interest rate is:
(a) –3 percent (b) 3 percent
(c) 8 percent (d) 13 percent

(x) Which of the following is included in GDP as currently measured?
(a) food stamps (b) used car sales
(c) additions to inventories (d) purchases of Ford stock

(xi) Disposable income is:
(a) the same as personal income (b) income that is used only for consumption
(c) Personal income remaining after income taxes
(d) exclusive of social security payments or welfare.

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(xii) The difference between GNP and GDP is:
(a) net factor payments to foreigners (b) indirect business taxes paid to all levels of government
(c) net exports of goods and services. (d) capital consumption allowances.

(xiii) A country that makes large net income payments to investors in another country is likely to:
(a) have a large GDP than GNP (b) have smaller GDP than GNP
(c) grow slower economically than the other country
(d) grow faster economically than the other country.

(xiv) Which of the following would be the best measure of changes in the standard of living in an economy, expressed in a time series?
(a) real GDP (b) output per labor hour of output
(c) real GDP per capita (d) nominal GDP per capita

(xv) An MPC of less than 1 means that an increase in current disposable income would cause desired consumption expenditures to:
(a) rise by less than full increase in disposable income.
(b) fall slightly because the increase in income will increase saving.
(c) rise by the full increase in disposable income.
(d) stay the same because the MPS is also less than 1.

(xvi) For money to serve as an efficient medium of exchange, it must have all but which of the following characteristics?
(a) general acceptability (b) convertibility into precious metals
(c) high value relative to its weight (d) divisibility

(xvii) A bond that pays interest forever and never repays the principals is called a:
(a) perpetuity (b) preferred share
(c) fixed-term bond (d) treasury bill

(xviii) If given the same amount of inputs, U.S farmers produce 2 tons of rice per acre while Japanese farmers produce 1 ton of rice per acre, we can be certain that:
(a) the United Sates should export rice to Japan.
(b) the United States has a comparative in rice production.
(c) the United States has an absolute advantage in rice production.
(d) Japanese farmers must be paid twice as much as American farmers.

(xix) The doctrine of comparative advantage says that there are gains from international trade:
(a) only if both comparative and absolute advantage are present in both countries.
(b) if opportunity costs are the same in the countries involved.
(c) only there are economies of scale available.
(d) if countries specialize in the production of goods in which they are relatively more efficient.

(xx) The terms of trade are measured by:
(a) the quantity of imported goods that can be obtained for each unit of an exported good.
(b) the ratio of the price of imports to the price of exports.
(c) the value of imported goods that can be obtained for each dollar of exported goods.
(d) all of the above.

PART – II

NOTE:	**(i)** **PART-II** is to be attempted on the separate **Answer Book.** **(ii)** Attempt **ONLY FOUR** questions from **PART-II**. All questions carry **EQUAL** marks. **(iii)** Extra attempt of any question or any part of the attempted question will not be considered.

Q.2. Discuss the Agriculture Policy of Pakistan keeping in view the World Trade Organization. **(20)**

Q.3. Examine the Monetary Policy of Pakistan to reduce the inflation. **(20)**

Q.4. Discuss the critical role of Industrial sector in the economic development of Pakistan. **(20)**

Q.5. What are the sources of External Finance for the development of Pakistan economy? Explain **ANY TWO** of them. **(20)**

Q.6. Discuss the Agricultural Taxation of Pakistan. Do you support the Agriculture Tax? Give reasons. **(20)**

Q.7. Critically examine the Balance of Payments account of Pakistan. **(20)**

Q.8. Write short notes on **ANY TWO** of the following: **(20)**
(i) Transport and communication (b) Privatization in Pakistan (c) Energy & Fuel

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