FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION-2024 FOR RECRUITMENT TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT

ECONOMICS, PAPER-I

Roll Number

TIME ALLOWED: THREE HOURS	**(PART-I MCQs) MAXIMUM MARKS: 20**
PART-I (MCQs) : MAXIMUM 30 MINUTES	**(PART-II) MAXIMUM MARKS: 80**

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

(ii) Overwriting/cutting of the options/answers will not be given credit.

(iii) There is **no negative** marking. All MCQs must be attempted.

PART-I (MCQs)(COMPULSORY)

Q.1. (i) Select the best option/answer and fill in the appropriate Box ☐ on the **OMR Answer Sheet.(20x1=20)**

(ii) Answers given anywhere else, other than OMR Answer Sheet, will not be considered.

1. **There are strong theoretical reasons to expect that changes in wealth are responsible for changes in consumption. Nonetheless, one reason that we observe a tight link between consumption and disposable income is:**
   (A) Credit rationing which changes the intertemporal budget constraint for borrowers.
   (B) Households attempt to smooth their consumption.
   (C) Household saving provides a buffer between income and expenditure. (D) Ricardian equivalence.
2. **The accelerator principle states:**
   (A) If an increase in the growth of output is expected, investment will increase.
   (B) If an increase in investment is expected, output will increase.
   (C) If an increase in the growth of investment is expected, output will increase.
   (D) Small swings in investment are associated with large swings of output.
3. **The optimal capital stock is achieved when the user cost of capital is equal to:**
   (A) The interest rate. (B) The depreciation rate.
   (C) The marginal product of capital. (D) Tobin's q.
4. **A supply side vicious circle of poverty suggests that poor nations remain poor because:**
   (A) Saving remains low (B) Investment remains low
   (C) There is a lack of effective government (D) Both (A) & (B)
5. **Which of the following is not typically an element in the structural change that accompanies development?**
   (A) Increase in the share of agriculture in GDP (gross domestic product)
   (B) Increase in manufacturing as a share of GDP (C) Increase in urbanization (D) All of these
6. **The essence of Engel's law is that as family income rise:**
   (A) The savings rate increases (B) The proportion of income spent on food declines
   (C) Expenditure on food declines (D) Proportion of income spent on luxuries declines
7. **Economic growth measures the:**
   (A) Growth of productivity (B) Increase in nominal income
   (C) Increase in output (D) None of these
8. **Non-traded goods do not enter measured GDP because:**
   (A) They are intermediate goods (B) They are not traded in the market
   (C) There is no value added in the production of such goods
   (D) Their value is not captured by the exchange rate method of conversion to a common unit
9. **The concept of opportunity cost is based upon the principle of:**
   (A) Need (B) Consumption (C) Scarcity (D) Profit
10. **Which of the following is an INCORRECT statement about a budget constraint?**
    (A) Points on a budget constraint represent combinations of the goods that exactly use up income
    (B) Points within the budget constraint represent combinations of the goods that do not use up all the income.
    (C) If points A and B lie on the budget constraint, we can deduce that people will be indifferent between the two
    (D) If the price of one good decreases, all else the same, the budget constraint will swivel or rotate outward
11. **When the manufacturer of power looms expands, there are forward linkage effects due to:**
    (A) Lost employment in the hand-loom sector (B) Increased incomes of workers that manufacture looms
    (C) Increased output of woven cloth made by the power looms (D) Increased demand for electric motors
12. **The Keynesian assumption is a convenient analytical short cut and turns out to be a rather accurate description of the reality. What does it assume?**
    (A) Constant prices (B) Firms cannot reduce fix costs
    (C) Output is predetermined (D) The interest rate stimulates growth
13. **What is not a component of the GDP?**
    (A) Consumption goods (B) Investment spending by firms on capital goods
    (C) Public sector's own demand for goods (D) Employment rate

14. **In short-run macroeconomic analysis, demand is often viewed as the driving force. Which component of total demand is often regarded as being independent of economic conditions and thus exogenous in the model?**
    (A) Consumption and private spending (B) Investment, saving
    (C) Net exports (D) Government spending and tax receipts
15. **Which kind of demand fluctuates the most?**
    (A) Consumption demand. (B) Private demand for investment.
    (C) Aggregated demand. (D) Demand by firms for investment goods.
16. **It is the _____ interest rate that matters for spending decisions and the _____ interest rate that is relevant when we look at monetary questions.**
    (A) Interbank , Exchange (B) Exchange , Interbank (C) Real , Nominal (D) Nominal , Real
17. **A certain amount of goods and services is necessary for a minimum standard of living. This is called:**
    (A) Basic needs (B) Absolute poverty (C) An international standard of living (D) The concept of development
18. **With perfect income equality the Gini coefficient in a country would be**
    (A) Infinity (B) 1 (C) .5 (D) 0
19. **The aggregate production function for the Solow growth model assumes _____ returns to scale and _____marginal productivity of labour and capital.**
    (A) Increasing , Diminishing (B) Constant , Diminishing (C) Decreasing , Constant (D) Constant , Creasing
20. **The labour measure (L) is:**
    (A) The average number of workers employed x average hours worked
    (B) The average number of workers (employed + unemployed) x average hours worked
    (C) The total number of workers employed x average hours worked
    (D) The total number of workers (employed + unemployed) x average hours worked

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) All the parts (if any) of each Question must be attempted at one place instead of at different places.
(iv) Write Q. No. in the Answer Book in accordance with Q. No. in the Q.Paper.
(v) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.
(vi) Extra attempt of any question or any part of the question will not be considered.

Q. No. 2. Why do economists use the *ceteris paribus* assumption? Many changes are affecting the market for oil. Predict how each of the following events will affect the equilibrium price and quantity in the market for oil. In each case, state how the event will affect the supply and demand diagram. Create a sketch of the diagram if necessary. **(20)**

a. Cars are becoming more fuel efficient, and therefore get more miles to the gallon.
b. Landlords install additional insulation in buildings.
c. The price of solar energy falls dramatically

Q. No. 3. What is the Consumer Price Index (CPI)? How is it constructed, and how does it measure inflation? Why is it so important to so many people in Pakistan today? What are some of its weaknesses? **(20)**

Q. No. 4. How does the existence of money simplify the process of buying and selling? What is the double-coincidence of wants? State and explain the concept of the money multiplier. **(20)**

Q. No. 5. Which kind of monetary policy would you expect in response to high inflation: expansionary or contractionary? Why? How might each of the following factors complicate the implementation of monetary policy: long and variable lags, excess reserves, and movements in velocity? **(20)**

Q. No. 6. How can an unexpected fall in exchange rates injure the financial health of a nation's banks? What is the difference between a floating exchange rate, a soft peg, a hard peg, and dollarization? **(20)**

Q. No. 7. What do you understand economic development to mean? Given the diversity of developing countries, do you think that there could ever be a single, unified theory of development? Explain your answer. **(20)**

Q. No. 8. Write short notes on any two of the following: **(10 each)** **(20)**
(a) Possibilities of export promotion in developing nations **(b)** Demographic transition
(c) Environmental Sustainability with special reference to developing countries

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PART-I (MCQs)(COMPULSORY)

Q.1. (i) Select the best option/answer and fill in the appropriate Box ☐ on the **OMR Answer Sheet. (20x1=20)**
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1. **Core inflation measures:**
   (A) CPI based inflation (B) GDP Deflator inflation (C) WPI inflation (D) None of these
2. **During FY 2022-23, Pakistan's industrial sector growth rate is:**
   (A) 6.5% (B) -2.94 % (C) -10% (D) None of these
3. **The CPI inflation for FY 2022-23 is:**
   (A) 20% (B) 45% (C) 29.3% (D) None of these
4. **Goal 1 of Sustainable Developments Goals relates to:**
   (A) Hunger (B) Economic growth (C) Education (D) None of these
5. **Okun's Law defines the relationship between:**
   (A) Unemployment and Inflation (B) Inflation and Economic growth
   (C) Unemployment and GDP growth (D) None of these
6. **Exchange rate depreciation improves:**
   (A) Economy (B) Markets (C) Trade balance (D) None of these
7. **GDP measures "all goods and services _____ produced in a given year".**
   (A) Domestically (B) Nationally (C) Excluding exports and imports (D) None of these
8. **The monetary policy tools are used for:**
   (A) Price stability (B) Financial stability (C) Economic growth (D) All of these
9. **Pakistan sought "International Monetary Fund's Financial Assistance" _____ times in 75 years.**
   (A) 25 (B) 23 (C) 12 (D) None of these
10. **Financial Inclusions mean:**
    (A) Having a financial account (B) Using the financial products
    (C) Having and using mobile accounts (D) All of these
11. **Quantity theory of money states that when quantity of money increases, value of money:**
    (A) Increases (B) Declines (C) Remains same (D) None of these
12. **Fiscal and monetary policies are used to:**
    (A) Improve markets (B) Stabilize economy (C) Improve trade deficit (D) None of these
13. **According to the State Bank of Pakistan (SBP) redefined Act 2022, the primary function of SBP is:**
    (A) Price stability (B) Treasury management (C) Exchange rate stability (D) None of these
14. **Gini coefficient is the measure of:**
    (A) Poverty (B) Inequality (C) Development (D) All of these
15. **GNP measures:**
    (A) Total production of nation (B) Total income of a nation
    (C) Total wealth of a nation (D) Both (A) and (B)
16. **Economic development is measured by:**
    (A) Sustenance (B) Freedom (C) Self esteem (D) All of these
17. **Unemployment rate is relatively higher in _____ in Pakistan as per Labor Force Survey 2020-21.**
    (A) Young Adults (B) Youth (C) Middle aged (D) None of these
18. **Pakistan's 1st digital population censes was conducted in the year:**
    (A) 2000 (B) 2009 (C) 2023 (D) None of these
19. **In Pakistan, investment as percentage of GDP is lower than:**
    (A) India (B) China (C) Bangladesh (D) All of these
20. **Economic recession is defined as reduced economic activities and employment levels for at least:**
    (A) Two consecutive quarters (B) One year (C) 5 years (D) None of these

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Q. No. 2. Differentiate between the "Economic growth" and "Economic Development". Explain various measures of both. **(20)**

Q. No. 3. During FY23, inflation in Pakistan has touched its highest peak over the 75 years. Describe in brief the factors behind this high inflation and explain the monetary and fiscal policy actions to improve upon the situation. **(20)**

Q. No. 4. Pakistan Nationalization Act was promulgated in year 1972. Discuss its advantages and disadvantages on Pakistan Economy. **(20)**

Q. No. 5. Pakistan has experienced "Green Revolution" in mid 1960s. What are the main determinants of Green Revolution? Explain the essential policy actions needed, if we want to revive again the "Green revolution" in Pakistan. **(20)**

Q. No. 6. Describe in brief the IMF's Financial Assistance program, its objectives and stringent conditionalities. Does it helpful in resolving the balance of payments problems and structural issues of a heavily indebted less developed countries like Pakistan? **(20)**

Q. No. 7. According to the Labor Force Survey (LFS) 2020-21, overall employment to population ratio is 42.1 percent and this ratio is higher in male (64.1 percent) as compared to female (19.4 percent). (i) Explain what are the main reasons behind the female low employment levels in Pakistan? (ii) Suggest the policy actions and reforms to increase the female labor force participation in the economy. **(20)**

Q. No. 8. Write short notes on any TWO of the following: **(10 each)** **(20)**

(i) Cities are engine of economic growth

(ii) Russia-Ukraine war and supply shocks

(iii) Pakistan's inefficient state-owned enterprises

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