



Introduction to Economics & Finance

Foundation Examination
Spring 2014
Module B

5 March 2014
100 marks - 3 hours
Additional reading time - 15 minutes

Instructions to candidates:

- (i) *All the Questions from Section A are compulsory.*
(ii) *Attempt any FOUR out of SIX Questions from Section B.*

Section A

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). **Each MCQ carries ONE mark.**

- (i) Microeconomics may be defined as the study of:
- (a) the 'focused picture' of the national economy
 - (b) acquisition of new technological skills by the factors of production
 - (c) a study of the level of aggregate production and reasons for its fluctuations
 - (d) none of the above
- (ii) Marginal Revenue is greater than zero if:
- (a) the elasticity of demand is greater than one
 - (b) the elasticity of demand is less than one
 - (c) the elasticity of demand is one
 - (d) none of the above
- (iii) Which of the following measures would immediately increase the cost of imports?
- (a) Tariff
 - (b) Dumping duty
 - (c) Embargo
 - (d) Subsidies
- (iv) The quantities of domestic goods given up to obtain a unit of imported goods is called:
- (a) Terms of trade
 - (b) Balance of trade
 - (c) Substitution effect
 - (d) Opportunity cost
- (v) Which of the following best defines marginal utility?
- (a) The satisfaction of a want that results from consuming one additional unit of product
 - (b) The change in total utility as a result of consuming an additional unit of a product
 - (c) The ability to buy more of a product due to increase in real income
 - (d) The decrease in satisfaction that results from consuming an additional unit of a product
- (vi) A movement along a supply curve is caused by a:
- (a) change in the unit price of the particular product
 - (b) change in the number of producers
 - (c) change in the level of technology
 - (d) change in supply of the particular product

- (vii) In conditions of oligopoly:
- the steps taken by the market leader are observed very closely by the other firms
 - the market leader is always in a position to assess accurately the market reactions of the other firms
 - the market leader's higher costs and higher prices discourage the rival competitors from undercutting the market leader's price
 - the other firms would not dare to make secret price cuts and antagonize the market leader
- (viii) Which of these costs will increase or decrease with increase or decrease in production levels?
- Marginal cost
 - Fixed cost
 - Financial cost
 - All of the above
- (ix) Which of the following is **NOT** a measure of income earned by a factor of production?
- Rent
 - Interest
 - Profits
 - Taxes
- (x) The multiplier measures the relationship between an increase in income caused by an increase in :
- expenditures
 - investment
 - taxes
 - savings
- (xi) Which of the following functions money performs best when used to purchase or sell different goods and services?
- Store of value
 - Medium of exchange
 - Standard of value
 - Statement of financial resourcefulness
- (xii) If the UK Pound is overvalued relative to the Pak rupee:
- Pakistani exporters will be in an advantageous position
 - Pakistani importers will be in an advantageous position
 - UK exporters will be in an advantageous position
 - Both (b) and (c)
- (xiii) A period of stagflation is characterized by:
- increasing prices and increasing employment
 - increasing prices and declining employment
 - declining prices and increasing employment
 - declining prices and declining employment
- (xiv) According to Keynes, individuals retain cash for:
- motives of transactions
 - motives of precaution
 - motives of speculation
 - all of the above
- (xv) An Isoquant:
- shows the increase/decrease in output that can be achieved by increasing/decreasing the total quantities of input
 - shows the different levels of output that can be achieved by alternative combinations of input
 - shows the same levels of output that can be achieved by alternative combinations of input
 - none of the above

Q.2 What do you understand by the term Consumer's Surplus? Briefly discuss *seven* difficulties in the precise measurement of consumer's surplus.

(11)

- Q.3 (a) Explain the Marginal Productivity Theory. Illustrate your answer with the help of an example. (06)
- (b) Briefly explain *five* grounds on which Marginal Productivity Theory is criticised. (07)
- Q.4 What do you understand by the term Division of Labour? Briefly describe any **four** advantages and disadvantages of division of labour. (10)
- Q.5 (a) When the price is not at the equilibrium point there is a state of disequilibrium in the market.
- Explain with the help of a diagram, disequilibrium which may exist when the quantity demanded is not equal to the quantity supplied. State how forces of demand and supply may push prices from disequilibrium to equilibrium. (06)
- (b) Briefly explain the important conditions which are necessary for the existence of Perfect Competition in a market. (05)

Section B

- Q.6 (a) Assume a small economy consisting of one firm. During a given period, the firm:
- (i) imported raw materials amounting to Rs. 90 million;
 - (ii) paid salaries to employees amounting to Rs. 180 million;
 - (iii) earned sales revenue of Rs. 400 million, comprising of domestic sales of Rs. 240 million, sales to government organisations of Rs. 90 million and exports of Rs. 70 million;
 - (iv) distributed dividends of Rs. 100 million to the shareholders.
- Taxes deposited on salaries paid to employees and on the firm's profits were Rs. 40 million and Rs. 50 million respectively.
- Calculate the Gross Domestic Product under Expenditure, Income and Value-added approaches. (06)
- (b) Identify any *four* important uses of National Income estimates. (04)
- Q.7 (a) Briefly explain the term Capital Market. (02)
- (b) State the important role which an active stock exchange plays in the functioning of a country's economy. (04)
- (c) Identify *eight* factors which may be responsible for fluctuations in the prices of a company's shares on the stock exchange. (04)
- Q.8 State what is meant by the term Fiscal Policy. Explain how fiscal policy measures may help to stimulate aggregate demand and reduce unemployment in an economy. (10)
- Q.9 Describe the process of credit creation by commercial banks and the concept of credit multiplier with the help of an example. (10)

- Q.10 How is Economic Growth measured? Discuss briefly the factors which are considered to be conducive for economic growth of a country. **(10)**
- Q.11 (a) Briefly discuss *four* unfavourable effects of inflation. **(04)**
- (b) Explain the concept of Inflationary Gap in an economy. Illustrate your answer with the help of a diagram. **(06)**

(THE END)