FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BPS-17 UNDER THE FEDERAL GOVERNMENT, 2008

Economics Paper - I

Part I (MCQs)

Question No.1 Select the best option /answer and fill in the appropriate box on the answer sheet.

1. in the theory of the firm, profit maximization is always synonymous with:
(a) profitability
(b) economic profit making
(c) maximization of the sales revenue
(d) both (a) and (c)
(e) none of these

2. the law of demand is valid when price elasticity of demand is:
(a) inelastic
(b) perfectly elastic
(c) unitary elastic
(d) both (a) and (c)
(e) none of these

3. at the breakeven point a producer covering entire opportunity cost of production happens to produce under a market structure characterized as:
(a) perfectly competitive
(b) monopoly
(c) oligopoly
(d) monopolistic competition
(e) all of these

4. in the short run, the decreasing returns to scale are caused by the existence of:
(a) internal diseconomies
(b) external economies
(c) technical inefficiency
(d) allocative inefficiency
(e) both (b) and (d)

5. the left hand side variable of the saving function is always:
(a) endogenous
(b) exogenous
(c) insignificant
(d) significant
(e) both (b) and (d)

6. the macro management model of the classical function economist assigns the supreme role to the:
(a) fiscal policy
(b) monetary policy
(c) commercial policy
(d) market

(e) both (b) and (c)

7. while determining the national income equilibrium of an open economy, exports are considered to be:
(a) exogenous
(b) endogenous
(c) autonomous
(d) both (a) and (c)
(e) both (b) and (c)

8. counterpart of the intercept of consumption function is the intercept of:
(a) import function
(b) exports
(c) saving function
(d) X-M
(e) None of these

9. price stability in an economy is indicative of:
(a) presence of sound money
(b) rising output
(c) rising employment
(d) both (a) and (c)
(e) none of these

10. the Central Bank of a country plays a significant role in her macroeconomics performance by regulating the:
(a) money supply
(b) supply credit
(c) interest rate
(d) money market
(e) all of these

11. the relationship depicted by the Phillips curve is not valid if the change in general price level is :
(a) positively related with output
(b) negatively related with output
(c) positively related with employment
(d) negatively related with employment
(e) all of these

12. with each successive stage of its operation, the marginal cost of a firm in the banking sector:
(a) increase
(b) decrease
(c) remains constant
(d) remains unpredictable
(e) none of these

13. the theory of comparative advantage from international trade considers the difference between the trading countries' factor prices arising from the different in:
(a) factor productivity
(b) factor intensity
(c) factor availability
(d) both (a) and (c)
(e) all of these

14. Marshell-lerner condition for stability of a foreign exchange market enquires that the sum total of the elasticity of demand for exports and demand for imports is:
(a) cross elasticity of demand
(b) income elasticity of demand
(c) price elasticity of demand
(d) both (b) and (c)
(e) none of these

15. expenditure switching policies for adjusting the balance of disequilibrium include:
(a) commercial policy
(b) fiscal policy
(c) monetary policy
(d) both (b) and (c)
(e) all of these

16. deadweight loss of a trade tariff is higher if the demand and supply functions of importable are:
(a) inelastic
(b) elastic
(c) completely inelastic
(d) both (a) and (c)
(e) none of these

17. An increasingly higher marginal income tax is:
(a) progressive
(b) regressive
(c) proportional
(d) both (b) and (c)
(e) none of these

18.the reallocative role of public economies indicates the existence of:
(a) Production externalities
(b) Inefficiency in resource utilization
(c) Consumption externalities
(d) Both (a) and (c)
(e) None of these

19.a price control interferes with the market by:
(a) causing market imperfection
(b) disallowing the market to work
(c) introducing price floor or ceiling
(d) both (b) and (c)
(e) all of these

20. in the presence of elastic supply and demand conditions, sales tax on a product interferes with the market by causing:
(a) welfare loss
(b) efficiency loss
(c) deadweight loss
(d) both (a) and (b)
(e) all of these

Part - II

Q2. the demand function is a static model, while the shifts is demand introduces those dynamics which render the law of demand invalid. Discuss and explain with the help of diagrams? (20)

Q3. what is economic profit? Diagrammatically distinguish between profit maximization and economic profit making and discuss the difference between the limitation of the latter for a monopoly and a perfectly competitive firm? (20)

Q4. “Keynes’s general theory was less of an anti-thesis of the classical economists and more of antinodes for both the great depression and the looming threat of communism” discuss? (20)

Q5. “the central bank of country is the watchdog of her economy” discuss and substantiate your answer by critically analyzing the role and performance of state bank of Pakistan in the macro management of the country? (20)

Q6. what is the relationship between debt burden and deficit financing ? discuss and compare two major sources of public debt and discuss their relative implications fro national budget and sustainable development in a country like Pakistan? (20)

Q7. “ for labor abundant countries , the comparative advantage from international trade only exists within a static model, while the real world dynamics mainly benefit the countries which happen to be both capital abundant and technologically advance” discuss in the perspective of factors responsible for Doha round stalemate? (20)

Q8. do you agree that the role of US dollar as the vehicle currency is a legacy of the bretton woods system of exchange rate determination ? Why the latter was introduced and what factors were responsible for its demise? (20)

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Economics Paper - II

Part I (MCQs)

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

(1) Had net exports in Pakistan been reduced to "Zero" by contractionary fiscal policy through the first half of the 1980's, the Pakistan economy would have:

(a) Been producing output will above the full employment level of GNP
(b) Been producing output slightly above the full employment level of GNP
(c) Been producing output nearly equal to the full employment level of GNP
(d) Been producing output slightly lower to the full employment level of GNP
(e) Been producing output considerably lower than the full employment level of GNP

(2) The internal rate of return of any capital good could reasonably be described as:

(a) The particular rate of interest at which the capital good would just be worth buying or building, i.e., the present value of revenue would just be matched by costs.
(b) The dollar amount of profit that would accrue if that capital good were bought or build.
(c) The same thing as the market rate of interest.
(d) The physical increase in output (as distinct from the money value) that would accrue if the capital good were bought or built.
(e) The percentage figure obtained by adding up all net revenues that would accrue from the capital good and dividing this total its cost.

(3) Consumers have budgeted a fixed money amount to buy a certain commodity. Within a certain range of prices, they will spend neither more nor less than this amount on it. Their demand in this price range would properly be designated as:

(a) In equilibrium
(b) Perfectly elastic
(c) Perfectly inelastic
(d) Highly inelastic but not perfectly so.
(e) Unit-elastic

(4) An economy operating at full employment enters a period of high anticipated inflation. Which of the following statements accurately describes the likely result?

(a) Most people increase savings to be better prepared for the higher prices that they know are coming, thereby increasing capital investment, stimulating the rate of economic growth, and supporting lower interest rates.
(b) Most people decrease savings to increase current consumption and capital investment, thereby stimulating economic growth and supporting lower interest rates.
(c) Most people decrease savings to increase current consumption, thereby slowing capital investment, slowing the rate of economic growth and supporting lower interest rate.
(d) Most people increase savings to the better prepared for the higher prices that they know are coming, thereby reducing capital investment, slowing the rate of economic growth and supporting lower interest rate.
(e) Most people decrease savings to increase current consumption, thereby slowing capital investment, slowing the rate of economic growth and supporting higher interest rate.

(5) (Statement Needed)

(a) A general reduction in the tax rate applied to corporate profits.
(b) The elimination of the investment tax credit.
(c) A reduced emphasis on accelerated depreciation applied to a wide variety of types of capital, particularly building and equipment.
(d) The inclusion of intangible capital in the corporate income tax base.
(e) A contraction of the effective interest rate deduction against taxable corporate income.

(6) An absolute "precondition for growth" is the:

(a) Development of some excess of income over consumption.
(b) Creation of a surplus labour force for employment in manufacturing.
(c) Discovery and exploitation of some internal economics.
(d) Cultural acceptance of free enterprise principles of economic behaviour.
(e) Development of manufacturing to the point where it can begin to supplant agriculture.

(7) If a commodity's return is in the nature of pure economic rent and a tax is imposed on the commodity, then:

(a) The incidence of tax is born wholly by the suppliers, and price to the buyers will not change.
(b) The incidence is borne wholly by the buyers.
(c) The incidence will be shared between the suppliers and the buyers.
(d) The output of the commodity will fall and its price will rise.
(e) The output of the commodity will not fall but its price will rise.

(8) If a nation's capital – output ratio gradually increases over time, this indicates that:

(a) The share of capital – owners in total output is increasing.
(b) The diminishing returns stage has not yet been reached with respect to capital.
(c) The marginal physical product of capital must have reached zero.
(d) Technological progress must be improving the productivity of capital.
(e) The law of diminishing returns is operating with respect to capital's productivity.

(9) A general sales tax, without any exempted commodities, is considered to be:

(a) A progressive tax because it applies to luxuries as well as necessities.
(b) A regressive tax because wealthy people spend a smaller percentage of their total income on taxed commodities, and hence the proportion of payments to income is greater for people.
(c) A progressive tax because wealthy people spend more than poor people.
(d) A regressive tax because more money is collected from a poor person than from a rich one.
(e) A proportional tax because everybody pays the same tax percentage on each purchase.

(10) Given the usual downward – sloping shape of a market demand curve, what should be the effect of a tax that affects only the fixed cost of every firm remaining in a competitive market on the price received and the quantity supplied by each competitive firm?

(a) Price up and quantity up
(b) Price up and quantity down
(c) Price down and quantity up
(d) Price down and quantity down
(e) Price and quantity remain unchanged

(11) Suppose that long term labour contrasts hold the real wage above equilibrium. Which of the following statements would then hold?

(a) Fiscal stimulus would perversely increase the excess supply labour
(b) Monetary stimulus would perversely increase the excess supply labour
(c) Monetary stimulus would be totally ineffective to change the excess supply labour
(d) Fiscal stimulus only would reduce the excess supply labour
(e) Both fiscal and monetary stimulus could reduce the excess supply labour

(12) A substantial fall in the price of Pakistani currency in foreign currencies could be expected to affect physical quantities of exports from Pakistan and imports into Pakistan as follows:

(a) Increase both exports and imports
(b) Increase exports, decrease imports
(c) Decrease both exports and imports
(d) Decrease exports, increase imports
(e) Have no perceptible affect on either imports or exports.

(13) If the marginal utility of a commodity is zero, then:

(a) Total utility for this commodity has reached a maximum.
(b) The commodity in question has no utility, i.e. it is not one that consumers want to use.
(c) The paradox of value must be involved.
(d) The consumer has reached his or her equilibrium position with respect to purchase of this commodity.
(e) Total utility for this commodity must be zero also.

(14) A difference between a tariff on an imported good and a quota on such a good is:

(a) That a quota can never be made to yield revenue for the government, whereas a tariff can.
(b) That a tariff can never be made to yield revenue for the government, whereas a quota can.
(c) That a quota can be used to shut off all, or virtually all, the inflow of the imported good whereas a tariff cannot.
(d) That a tariff can be used to shut off all, or virtually all, the inflow of the imported good whereas a quota cannot.
(e) That a quantity equivalent quota will only generate the same revenue if correctly prices, (for example, by an auction for import licenses.)

(15) The relationship between marginal revenue and the price elasticity of demand is this; when marginal revenue is:

(a) Negative, demand must be inelastic
(b) Zero, demand must be inelastic
(c) Positive, demand must be inelastic
(d) Negative, demand must be unit-elastic
(e) Positive, demand must be perfectly elastic

(16) In a period of deflation (i.e. of generally falling prices), the "real" rate of interest obtained by a lender on money lent:

(a) Will exceed the nominal rate
(b) Will become a negative figure
(c) Will fall below the stated rate, although not to the extent of becoming a negative figure.
(d) Will become a meaningless or incalculable figure
(e) Will be less than the nominal rate.

(17) Suppose that net export were to become more sensitive to change in the interest rate. You would expect to see (with respect to changing output)

(a) Both fiscal and monetary policy become more effective
(b) Both fiscal and monetary policy become less effective
(c) Monetary policies become more effective, while fiscal policy become less effective.
(d) Fiscal policy becomes more effective, while monetary policy become less effective.
(e) Fiscal policy becomes more effective, while monetary policy does not change.

(18) Net exports are most likely to be:

(a) Positively correlated with both interest rates and GNP
(b) Positively correlated with interest rate but fairly independent of GNP
(c) Positively correlated with GNP, but fairly independent of interest rates.
(d) Negatively correlated with GNP, but positively correlated with interest rates.
(e) Negatively correlated with both interest rates and GNP

(19) Trade theory predicts that protectionist measures produce:

(a) Permanent increase in the rate of inflation
(b) Temporary increase in the rate of inflation
(c) Permanent reductions in the rate of inflation
(d) Temporary reductions in the rate of inflation
(e) Temporary or permanent increase in the rate of inflation depending upon (1) whether they are quotas or tariffs and (2) the degree of market power held by domestic supplies in the import competing industry.

(20) When economists speak of investment, they are speaking of:

(a) The part of GNP used by households for current use.
(b) The part of GNP, past and present, that has been set aside to add to productive capacity.
(c) The part of GNP captured in the computation of rupee value of goods butn ot services.
(d) The part of GNP that the government devotes to the construction of roads, airports, and the like.
(e) The part of GNP used by business to add to productive capacity, and by households to add to their stock of new houses.

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. What is meant by the statement that many Developing Countries are subject to “dominance, dependence and vulnerability” in their relations with rich nations? Explain the statement with examples.

Q.3. Why is an understanding of the meaning of development crucial to policy formulation in Developing Nations? Do you think it is possible for a nation to agree on a rough definition of development and orient its strategies for achieving these objectives accordingly? What might be some of the road block or constraints in realizing these development objectives – economic and non-economic?

Q.4. What is meant by “absolute” poverty and the poverty gap? How and why should we be concerned with the measurement of absolute poverty in the Developing World? Explain with examples.

Q.5. It is sometimes asserted that small peasant frames are backward and ignorant because they seem to resist agricultural innovations that could raise farm yields substantially. Does this resistance stem from an inherent “irrationality” on their part or might it be attributable to some other factors often over looked by Western economists? Explain your answer.

Q.6. There appears to be widespread agreement that in those regions where the distribution of land ownership is highly unequal (Latin America and parts of Asia), land reforms is necessary but not sufficient condition for promoting and improving small – scale agriculture. What is meant by this statement and by the concept of land reforms? Give some examples of supportive policy measures that might accompany land reform in the light of experience in Pakistan.

Q.7. How do the trade policies of developed countries affect the ability of less developed countries to benefit from greater participation in the world economy? How do “non trade” domestic economic policies of rich nations affect the expert earnings of Developing Countries? What is meant by “adjustment assistance” and why it is so important to the future of Developing Countries manufactured export prospects? Explain.

Q.8. How important is foreign aid for the economies of the developing world in relation to their other sources of foreign exchange receipts? Explain the various forms development assistance can take and distinguish between bilateral and multilateral assistance. Which do you think is more desirable and why?