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.	

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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 perfect 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 procedutes

(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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