The Institute of Chartered Accountants of Pakistan

Foundation/Modular Examinations **Spring 2001**

March 14, 2001

INTRODUCTION TO ECONOMICS & FINANCE **(MARKS 100)**
FE-1 (Paper-5)/MODULE "A" (Paper-A3) **(3 hours)**

Q.1 (a) What do you understand by:
(i) income elasticity of demand, and **(02)**
(ii) cross elasticity of demand. **(02)**

(b) Product Zeta currently sells for Rs.10 per unit and the demand at this price is 22,000,000 units. If the price fell to Rs.8 per unit, demand would increase to 27,000,000 units. Compute price elasticity of demand and interpret your result. **(05)**

(c) 'The price elasticity of demand of cigarette is low', Discuss the importance of this statement for a government policy maker involved in levying taxes to generate revenues. **(05)**

(d) What does unit elasticity of demand signify? **(02)**

Q.2 (a) Draw a labeled diagram of equilibrium of a firm in the long run under perfect competition. Explanation is not required. **(06)**

(b) What is 'Price Discrimination'? Such discrimination is profitable for the seller under certain conditions. Please explain. **(08)**

Q.3 (a) There are circumstances under which a government that is normally committed to the principles of a 'Free Market' decides to take interventionist measures. List down such circumstances. **(05)**

(b) 'Two indifference curves on a single indifference map never intersect each other'. Comment with the help of a diagram. **(06)**

Q.4 (a) Explain the effect of 'devaluation of currency' on the balance of payment - current account of the country with the help of J-curve. **(07)**

(b) Briefly discuss the arguments against the policies of a government to protect the domestic producer. **(12)**

Q.5 The Economic Survey of the government of Aladina discloses the following:

	Rupees in millions
Government expenditure	7,500
Sales value of out put of firms	30,000
Imports	6,000
Profit before tax of firms	10,500
Consumers' expenditure	16,500
Wages etc. received by employees	12,000
Tax deducted out of wages	1,500
Exports	6,000
Cost of goods and services purchased from outside firms	6,000

You are required to compute the Gross Domestic Product (GDP) by:

i) expenditure approach **(05)**
ii) income approach **(05)**
iii) value added approach **(05)**

Q.6 (a) What are the advantages of 'Paper Money'? **(05)**

(b) Discuss the Principles of Note issue **(10)**

Q.7 (a) What is 'Velocity of circulation of money'? Identify four different functions of money. **(05)**

(b) If money (i.e. nominal) rate of interest is 16% and the annual rate of inflation is 5.45%. What is the real rate of interest? **(05)**

(THE END)