

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2008



March 5, 2008

## INTRODUCTION TO ECONOMICS AND FINANCE

(MARKS 100)

### Module B

(3 hours)

- Q.1 (a) Explain any four factors on account of which the demand of a product may change even when its price remains the same. (06)
- (b) Explain the role of State in a mixed economy. (08)
- Q.2 What do you understand by balance of payment and balance of trade? Describe the steps that may be taken if there is an adverse balance of payment. (09)
- Q.3 The neo-classical theory of interest considers that the rate of interest prevalent in an economy depends on the supply and demand of loanable funds. Explain the factors that affect the supply and demand of such funds. (15)
- Q.4 (a) Identify the four important functions of money and highlight their significance. (08)
- (b) Keynes has identified three different motives on account of which a person prefers to keep his money in liquid form. Identify these motives and describe their influence on the liquidity preference of an individual. (06)
- (c) What do we mean by 'Open Market Operations'? Why does the Central Bank undertake such operations? (04)
- Q.5 Explain the following concepts with reference to consumer behaviour, using appropriate diagrams:
- Price effect
  - Substitution effect
  - Income effect
- (12)
- Q.6 (a) Describe the term 'Land' as a factor of production. Explain the basis of determination of 'Rent'. (05)
- (b) Explain the concept of 'Marginal Efficiency of Capital'. (05)
- Q.7 Differentiate between the following with the help of appropriate examples:
- (a) Direct demand and Derived demand. (04)
- (b) Net interest and Gross interest. (04)
- Q.8 Explain the concept of 'Price Discrimination'. Describe the conditions under which a firm can resort to price discrimination. (06)
- Q.9 Explain the process of profit-maximization by a monopolist with the help of an appropriate diagram. (08)

(THE END)