



## Introduction to Economics and Finance

Foundation Examinations – Autumn 2010  
Module B

September 1, 2010  
100 marks - 3 hours

- Q.1 (a) Draw a Diagram of Circular Flow of Income. *(04 marks)*  
(b) Identify and explain briefly the **three** different types of Withdrawals and Injections from the Circular Flow of Income. *(06 marks)*
- Q.2 (a) How is Economic Growth measured? *(01 mark)*  
(b) List **five** ingredients which influence a country's rate of Economic Growth. *(05 marks)*  
(c) Identify **five** features of an economic system based on capitalism. *(05 marks)*
- Q.3 (a) What is Nominal Interest Rate? Differentiate between Nominal Interest Rate and Real Interest Rate. *(03 marks)*  
(b) What is meant by Public Debt and how can the government reduce the size of the Public Debt? *(03 marks)*  
(c) Identify **eight** functions which are generally performed by the central bank in a country. *(04 marks)*
- Q.4 Explain briefly by means of diagrams, the concepts of Unitary Elastic Demand, Relatively Elastic Demand, and Relatively Inelastic Demand. Also, state the impact of a decrease in price on total expenditure in each of the different types of elasticities of demand. *(12 marks)*
- Q.5 (a) Discuss what is meant by Return to Scale. *(03 marks)*  
(b) Explain briefly the concept of Increasing Return to Scale and Decreasing Return to Scale and indicate why these different phenomenon occur. *(05 marks)*
- Q.6 Describe the measures a country may take to correct disequilibrium in the Balance of Payments. *(07 marks)*
- Q.7 According to Keynes, individuals have various motives for retaining their money in liquid form. Identify these motives and explain their influence on the liquidity preference of an individual. *(06 marks)*
- Q.8 Explain **six** different features which distinguish a market functioning in an environment of perfect competition from a market which operates as a monopoly. *(09 marks)*
- Q.9 Explain what is meant by:  
(a) Freely Fluctuating Exchange Regime  
(b) Fixed Exchange Rate Regime, and  
(c) Managed Floating Exchange Rate Regime *(06 marks)*
- Q.10 What steps are usually adopted by the authorities to control inflationary pressures? *(06 marks)*

(P.T.O.)

Q.11 Select appropriate answer of each of the following Multiple Choice Question (MCQ). **Each MCQ carries ONE mark.**

- (i) Under perfect market conditions, the supply curve of a firm is the same as:  
 (a) MC curve (b) MR curve (c) AR curve (d) AC curve
- (ii) Which of the following products is likely to have the lowest price elasticity of demand?  
 (a) salt (b) cars (c) houses (d) apples
- (iii) Which of the following is a measure of income earned by a factor of production?  
 (a) indirect taxes (b) depreciation (c) rent (d) corporate taxes
- (iv) Which statement is true of a curve with a constant slope?  
 (a) it is a straight line (b) it is non linear  
 (c) it runs parallel to Y-axis (d) it runs parallel to X-axis
- (v) In a perfectly competitive market \_\_\_\_\_ is/are the price maker(s):  
 (a) the individual firm (b) the industry  
 (c) a large number of consumers (d) the trade association
- (vi) Which statement is true, in respect of every point on an indifference curve?  
 (a) the price of each good is the same (b) the level of satisfaction is the same  
 (c) all of these statements are true (d) none of these statements is true
- (vii) Which of the following is **NOT** included in the explicit costs of a firm?  
 (a) wages paid to labour (b) interest paid for borrowed capital  
 (c) payments for purchases of materials (d) normal profit
- (viii) In the long-run, price is determined by:  
 (a) cost of production (b) number of consumers  
 (c) influence of tastes and fashion (d) competitive forces
- (ix) The aggregate demand curve would shift to the right if:  
 (a) government taxes increase (b) net exports increase  
 (c) government spending decreases (d) the nominal money supply decreases
- (x) Money does **NOT** function as a:  
 (a) medium of exchange (b) hedge against inflation  
 (c) store of value (d) measure of value
- (xi) Which of the following deposits can **NOT** be withdrawn by cheque?  
 (a) a PLS deposit account (b) a demand deposit  
 (c) a certificate of deposit (d) none of the above
- (xii) Monopoly power may be based on:  
 (a) economies of large scale production (b) patents  
 (c) control of key natural resources (d) all of the above
- (xiii) Which of these is **NOT** a component of cost function of a product?  
 (a) market price of the product (b) operating technology of the plant  
 (c) operating capacity (d) all of the above
- (xiv) Which of the following best defines marginal utility?  
 (a) the satisfaction of a want that results from consuming a good or service  
 (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 or service when real income increases  
 (d) the decrease in satisfaction that results from consuming an additional unit of a product
- (xv) If the American dollar is overvalued relative to the Pakistan rupee:  
 (a) Pakistani goods are cheaper than US goods  
 (b) the Pakistan rupee is undervalued relative to the dollar  
 (c) the rupee price of the dollar must rise  
 (d) the cost of Pakistani goods in the United states must be increasing

(THE END)