



Introduction to Economics and Finance

Foundation Examination
Spring 2012
Module B

7 March 2012
100 marks - 3 hours
Additional reading time - 15 minutes

Instructions to candidates:

- (i) All the Questions from Section A are compulsory.
(ii) Attempt any TWO out of THREE Questions from Section B.

Section A

Q.1 What do you understand by the term Division of Labour? Briefly describe any **four** advantages and disadvantages of Division of Labour. (10 marks)

- Q.2 (a) Briefly explain the Law of Equi-Marginal Utility. Also narrate the basic assumptions applicable to the Law of Equi-Marginal Utility. (05 marks)
(b) Mr. Khan wants to spend Rs. 100 on two commodities, Rice and Sugar. Following table shows the marginal utility (MU) derived from both of these commodities:

Units of money (Rs.)	MU of Rice	MU of Sugar
20	10	12
40	8	10
60	6	8
80	4	6
100	2	3

Explain briefly Mr. Khan's equilibrium position with the help of a diagram using the principle of Equi-Marginal Utility. (06 marks)

- (c) Describe the limitations of the Law of Diminishing Marginal Utility. (05 marks)

- Q.3 (a) What is a reserve price? Describe the factors which govern the reserve price of a seller. (06 marks)
(b) How do free forces of demand and supply determine equilibrium price and equilibrium quantity? Support your answer with the help of a diagram. (07 marks)
(c) Explain briefly why the short-run average cost curve is "U" shaped. (06 marks)

Q.4 Select appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). Each MCQ carries ONE mark.

- (i) Which of the following is **NOT** a method for the measurement of price elasticity of demand?
(a) Total outlay (b) Total savings (c) Point method (d) Arc method
- (ii) Which of the following is an example of indirect tax?
(a) Income tax (b) Sales tax (c) Capital gains tax (d) Property tax
- (iii) Index price of exports ÷ Index price of imports is equal to:
(a) Balance of trade (b) Balance of payment
(c) Terms of trade (d) Inflation
- (iv) Which of the following measures would immediately increase the cost of imports?
(a) Tariff (b) Quota (c) Embargo (d) Subsidies

- (v) Increase in Cash Reserve Ratio would:
 (a) Decrease prices (b) Reduce inflation
 (c) Control lending (d) All the above
- (vi) Which of the following is **NOT** a characteristic of oligopolies?
 (a) Mutual dependence (b) Growth through merger
 (c) Large number of firms (d) Non-price competition
- (vii) The curvature of Production Possibility Curve is due to:
 (a) Change in opportunity cost (b) Increase in resources
 (c) Decrease in demand (d) Decrease in supply
- (viii) The four main phases of a business cycle does **NOT** include:
 (a) Depression (b) Inflation (c) Boom (d) Recession
- (ix) Which of the following is **NOT** considered to be a credit instrument?
 (a) IOU (b) Draft (c) Bond (d) Stock
- (x) A contraction in an economy's aggregate output combined with inflation is called:
 (a) Disinflation (b) Deflation (c) Stagflation (d) Recession
- (xi) In the Keynesian theory of demand for money, the transactions demand for money is determined by:
 (a) The rate of interest (b) The level of consumers' income
 (c) Expected changes in consumer prices (d) The amount of money in circulation
- (xii) Identify the key element of a market structure:
 (a) Barriers to entry (b) Barriers to exit
 (c) Product differentiation (d) None of the above
- (xiii) The concept of Multiplier discusses:
 (a) Savings and investments (b) Income and investments
 (c) Income and expenditure (d) Income and savings
- (xiv) Currency is usually devalued to:
 (a) Increase exports (b) Increase imports
 (c) Decrease inflation (d) Increase prices
- (xv) A firm that breaks even after all the economic costs are paid, is earning:
 (a) Economic profit (b) No profit
 (c) Normal profit (d) Supper normal profit

Section B

- Q.5 (a) What is meant by Direct and Indirect taxes? Enumerate the features of a good tax system. (08 marks)
 (b) Discuss **four** advantages and disadvantages of paper money. (08 marks)
 (c) What is meant by public debt and how can the government reduce its size? (04 marks)
- Q.6 (a) Explain briefly the Accelerator Principle. Identify and explain any **five** limitations of Accelerator Principle. (08 marks)
 (b) Describe the objectives of World Trade Organization. (06 marks)
 (c) Explain with the help of a diagram, the shut down point of a firm under perfect competition. (06 marks)
- Q.7 (a) State briefly how a government can influence the level of private investment in the country. (10 marks)
 (b) Explain by means of a diagram the concept of deflationary gap in the economy. (06 marks)
 (c) Briefly discuss any **four** unfavourable consequences of unemployment. (04 marks)

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