

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN

FOUNDATION-I EXAMINATION—SUMMER, 2003

Thursday, the 22nd May, 2003

710

ECONOMICS & BUSINESS ENVIRONMENT

Time Allowed—3 Hours

Maximum Marks—100

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- (i) Attempt three questions from SECTION "A" and two from SECTION "B". All questions carry equal marks.
- (ii) Answer must be neat, relevant and brief.
- (iii) In marking paper, the examiners take into account clarity of exposition, logic of arguments, presentation, language and use of clear diagram or chart, where appropriate.
- (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (v) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
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Marks

SECTION "A"

Q. 1. (a) Fill in the blanks :

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- (i) are either costs or benefits conferred on parties not directly involved in the production or use of a commodity.
- (ii) The marginal cost curve is also called the curve.
- (iii) is not endowed by nature but produced by man.
- (iv) unemployment is the short run normal inactivity during jobs.
- (v) is a flow and an addition to the stock of capital.

P.T.O.

- (b) State whether the following statements are TRUE OR FALSE : 5
- (i) A monopolist will stop production, if its losses exceed its fixed costs in the short-run.
 - (ii) Measures designed to reduce the rate of inflation may increase unemployment.
 - (iii) The demand for a commodity is price inelastic if the price elasticity of demand is greater than one.
 - (iv) The higher the consumers money income, the lower the budget line.
 - (v) The marginal product curve intersects the average product curve when the latter is at its maximum.
- (c) Choose the most appropriate answer out of the following alternatives : 5
- (i) Factors of production are :

(a) land and capital	(b) labour only
(c) inputs	(d) outputs
 - (ii) Excess supply signifies :

(a) there is a shortage	(b) there is a surplus
(c) quantity demanded is less	(d) supply is greater than demand at each price
 - (iii) Sunk costs are :

(a) Part of variable costs	(b) Another name for marginal costs
(c) Non-recoverable costs	(d) Costs which increase as production increases
 - (iv) If investment increases by 20 when income rises by 100, then the marginal propensity to invest will be :

(a) 20	(b) 100	(c) 5	(d) 0.2
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(v) In the Keynesian theory, the level of employment is particularly linked to :

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|------------------------------------|--|
| (a) Fluctuating prices | (b) fluctuating national income |
| (c) fluctuation in real wage rates | (c) adjustments in government expenditure. |

(d) Relate each line of Group "A" with correct line of Group "B". 5

GROUP "A"

GROUP "B"

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|-----------------------------|---|
| 1) Opportunity cost | A) Areas of poverty |
| 2) Economies of scale | B) Input-Output relation |
| 3) Less developed countries | C) Employment, Interest and Money |
| 4) Production function | D) Cost reducing measures |
| 5) J. M. Keynes | E) The value of the next best alternative forgone |

- Q 2. Explain different methods of measuring National Income. 20
- Q 3. a) What is Marginal Rate of Substitution ? 5
 b) Enunciate and explain the Law of Diminishing Marginal Rate of Substitution. 15
- Q 4. a) Explain the concept of Elasticity of Demand. 5
 b) Examine its significance in analytical and applied economics. 15

SECTION "B"

- Q 5. "Forests play a very crucial role in the economic development of a country". Discuss in the context of Pakistan. 20
- Q 6. "The development of Small and Medium Enterprises offers a bright and promising future for Pakistan". Examine this statement. 20
- Q 7. What are the main factors responsible for imbalance in the Balance of Payments of Pakistan ? Suggest measures for improvement in the same. 20

THE END