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Total Marks = 80

SECTION – "A"

Q. 2 (a) SUPPLY CURVE OF A PRODUCT:

Two important points which are true for supply are:

(i) Supply refers to what producers offer for sale at a given price. What they offer for sale may not actually get sold.

(ii) Supply is a flow concept. The quantity supplied is so much per unit of time, per day, per week, per month or per year.

Determinants of Supply:

The quantity offered for sale depends upon a number of factors. Important ones are:

- Price of the good
- Production technology
- Prices of factors
- Prices of other commodities
- Objectives of the firm
- Number of producers
- Time
- Government policy
- Future price expectations

Q. 2 (b) LAW OF SUPPLY:

The law of supply explains the functional relationship between price and quantity supplied. According to this law, ceteris paribus, an increase in price of a commodity causes an increase in its quantity supplied and a decrease in its price causes it quantity supplied to fall. Thus, we find a positive relationship between price and quantity supplied.

The law of supply is based on the fact that a higher price of the good generally leads to higher profits and thus provides the producers an incentive to produce more. It is because while price increases, cost of production of the good does not increase simultaneously.

The law of supply can be illustrated through supply schedule and supply curve. Consider the following schedule:

TABLE: SUPPLY SCHEDULE OF COLD DRINKS

Price of cold drink (Rs.)	No. of cold drinks bottles offered for sale (per week)
5	20
6	35
7	45
8	53
9	60
10	66

Table shows the number of bottles that would be offered for sale at various prices by an individual producer. When price is Rs. 5, the producer is ready to supply only 20 bottles.

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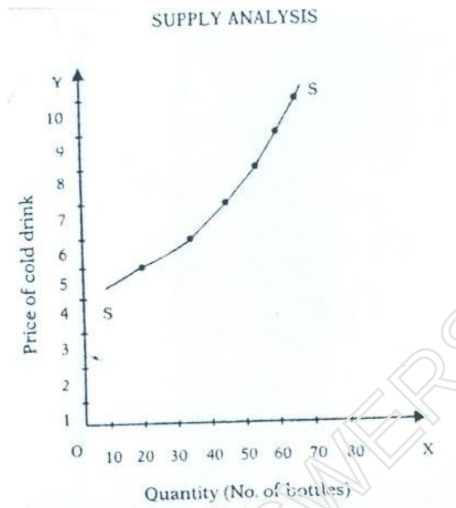
When price increase to Rs. 8 per bottle, the producer is ready to offer 53 bottles.

We can plot the data from Table on a graph. In figure price is plotted on Y-axis and quantity on X-axis and the various price-quantity combinations of the schedule are plotted.



When we draw a smooth curve through the plotted points, what we get is the supply curve for soft drinks. It slopes upwards to the right indicating a positive relationship between price and quantity supplied.

Q. 2 (c) FIXED COST AND VARIABLE COST:

Fixed cost is the cost which remains fixed regardless the volume of production. It is incurred even if there is no production. Examples are rent, insurance, interest etc.

Variable cost varies directly with the level of production. It is not incurred if there is no production. Examples are labour, raw-materials, electricity etc.

Q. 3 (a) UTILITY AND MARGINAL UTILITY:

People choose those goods and services they value most highly. To describe the way consumers choose among different consumption possibilities, economists a century ago developed the notion of utility. Utility is the ability to satisfy a human want or desire. There is no unit of measure for utility.

Utility denotes satisfaction. More precisely, it refers to how consumers rank different goods and services. If basket A has higher utility than basked B, this ranking indicates that we prefers A over B.

The expression "marginal" is a key term in economics and always means "additional" or "extra". Marginal utility denotes the additional utility you get from the consumption of an additional unit of a commodity.

The Law of Diminishing Marginal Utility:

This law states that the amount of extra or marginal utility declines as a person consumes more and more of a good.

More precisely the law of diminishing marginal utility states that, as the amount of a good consumed increases, the marginal utility of that good tends to decline.

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The law is based upon two important facts:

i) Human wants are absolutely unlimited; there is no end to human wants for commodities of all kinds.

ii) Each separate human want is strictly limited. The amount of any commodity which a man can consume or enjoy within any period of time is limited. He cannot eat or drink more than a certain quantity at any one time.

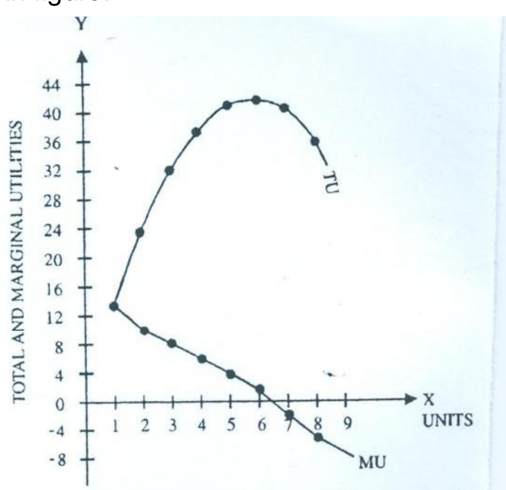
Illustration – Consider Table in which we have presented the total and marginal utilities desired by a person from bottles of Coca-Cola consumed per day.

TABLE – TOTAL AND MARGINAL UTILITY

Bottles of Coca-Cola consumed	Total Utility	Marginal Utility
1	14	14
2	24	10
3	32	8
4	38	6
5	42	4
6	43	1
7	41	-2
8	36	-5

When one bottle of Coca-Cola is consumed the total utility derived is 14 units. The marginal utility is also 14 here. With the consumption of second bottle the total utility rises to 24 but the marginal utility falls to 10. The total utility is increasing when the amount of intake of Coca-Cola is increased but it is increasing at a diminishing rate. In other words, as the consumption is increasing from one bottle to six bottles, the marginal or extra satisfaction derived is diminishing (it has fallen from 14 to 1 over these units). In fact, when the consumer drinks the seventh bottle, then his total utility falls and marginal utility becomes negative.

We may represent the information given in table relating to total utility and marginal utility on a graph. This is done in figure.



TOTAL AND DIMINISHING MARGINAL UTILITIES

The figure shows total utility and marginal utility on Y-axis and number of bottles of Coca-Cola consumed on X-axis.

The figure shows that as the consumption of cold drinks increases, the total utility curve also rises upto or point. After that point (after 6th bottle) as more and more of cold drink is

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consumed, the total utility curve starts falling. The figure also shows that marginal utility curve goes on declining as the units of consumption are increased and it even crosses the X-axis and suggests negative marginal utility. The diminishing marginal utility generally applies to almost all commodities. A few exceptions have been pointed out (e.g. money) but it has been observed that in the later stages all the commodities are subject to diminishing marginal utility.

Q. 3 (b) PERFECT COMPETITION AND MONOPOLISTIC COMPETITION:

Perfect Competition:

A market characterised by perfect competition is one in which no individual buyer or seller influences the prices by his purchases or sales.

Following conditions are essential for perfect competition to take place:

i) There are a large number of firms producing and selling a product.
ii) The product of all firms is homogeneous.
iii) There is free entry into and exist from the market.
iv) The goal of all firms is profit maximisation.
v) These is no interference from government in the functioning of an enterprise.

Monopolistic Competition:

In the competitive industry, we have a large number of firms producing a homogenous product. In the monopolized industry, we have a single firms producing a product that has no close substitutes. These are the polar extremes of market structure. Monopolistic Competition is an intermediate market structure that is characterized by a large number of firms with differentiated products. These products are heterogeneous but highly substitutable. The heterogeneity of products makes impersonal competition (as in the competitive model) impossible, because consumers may have decided preferences for one firm's output over another's. There are numerous examples of products that are differentiated: for example, legal services, haircuts, shoes, soaps, college text-books, shampoos, toothpastes, readymade garments etc.

Features of monopolistic competition:

i) Large number of sellers and buyers
ii) Product differentiation
iii) Free entry or exit
iv) Role of advertisement etc.

SECTION – "B"

Q. 4 (a) MAIN SOURCES OF REVENUE BUDGET:

Tax Revenue:

Tax on income, profit and wealth

It is levied on the income, profit and property of the individuals and businesses. These taxes are levied at different rates for different income groups and property owners. The

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rate increases with the increase in the level of income and property. This is called progressive taxation and aims at putting a relatively greater burden of these taxes on the well to do sections of the society. The Wealth Act has been repeated in Pakistan in 2003-04.

Taxes on goods and services:

- Excise duty
- Sales tax
- Surcharge
- Custom duty

Non-Tax Revenue

Besides taxes, the Federal Government also obtains revenue from the following non-tax sources.

- Income from property and enterprises.
- Profits from post office and T&T Department.
- Trading profit.
- Interest and dividends.
- Minor heads.

Q. 4 (b) FISCAL POLICY OF PAKISTAN:

Fiscal policy is one of the important methods of fine tuning the economy of the country. It is defined as changes in government expenditure and taxation so as to influence the pattern and level of economic activity in the country. Fiscal policy of Pakistan is playing an important role in continuously increasing rapid economic growth. For attaining sound and rapid economic development in the country, the fiscal policy of Pakistan is based on the following objectives.

Objectives of Fiscal Policy:

The objectives of fiscal policy are not specified because they change with the level of economic development of a country. In developing countries including Pakistan, the objectives of fiscal policy are:

1. To encourage economic growth in an atmosphere of stability.
2. To achieve greater equality in the distribution of income.
3. To reduce regional disparity in per capita income in various parts of the country.
4. To restrict import to essential items.
5. To provide incentives for increased savings and investment in the country.
6. To increase agricultural and industrial production for consumption at home and for export abroad.
7. To achieve desirable level of prices in the country.
8. To regulate resource allocation and increase export to earn foreign exchange.

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9. To check rapid increase in consumption.

10. To attain maximum well-being of the people.

11. To reduce poverty by efficient allocation of resources.

Shortcomings of Fiscal Policy of Pakistan:

There is no doubt that the Government is making all efforts to mobilize resources for attaining rapid economic development in the country, but it has not achieved satisfactory progress in the following areas.

i) Defective tax structure
ii) Inflation
iii) Negative return of the public sector
iv) Rising poverty and inequality in income
v) instability

Q. 5 **MONEY MARKET:**

The money market is not a market in the usual sense of the term. The term money market refers to institutional arrangements and facilitating for borrowing and lending of short-term funds. The period of borrowing and lending in the money market is one year or less against different types of highly marketable liquid debt instruments such as bills of exchange, the treasury bills, the promissory notes, short-term securities, etc. Various financial institutions which deal in short-term loans can be called members of the money market. These institutions generally are the central bank, commercial banks, discount houses, bill brokers and acceptance houses.

Money market is a market where short-term money capital and short-term debt obligations are traded.

Functions of a Money Market:

A money market performs a number of functions in an economy:

1. It provides short-term funds to public and private institutions including commercial banks to meet their short-term liquidity requirements. Thus in this way money market helps the development of commerce, industry and trade within and outside the country.
2. It provides an opportunity to banks and other financial institutions to use their surplus funds profitably for a short period.
3. It allocates savings into investment and tends to obtain an equilibrium between the demand for and supply of loanable funds. In this way, the money market helps in more rational allocation of resources.
4. It promotes liquidity and safety of financial assets and thereby it encourages savings and investment. This is important in LDCs where savings and investments habits are rather poor. In may rural areas of LDCs, savings too often comprise land and gold-holdings rather than the holding of financial assets which could channel savings into productive investment.

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5. A money market promotes financial mobility by enabling the transfer of funds from one sector to another. Such flow of funds is essential for the development of economy and commerce.
6. The existence of a developed money market removes the necessity of borrowing by the commercial banks from the central bank at a higher rate. If the former find their reserves short of cash requirements they can call in some of their loans from the money market.
7. The money market facilitates the government in borrowing short-term funds at a low interest rates on the basis of treasury bills. On the other hand, if the government were to issue paper money or borrow from the central bank, it would lead to inflationary pressures on the economy.
8. A well-developed money market is essential for the successful implementation of the monetary policies of the central bank. It is through the money market that the central bank is in a position to control the banking system and thereby helps in the growth of commerce and industry.
9. The money market deals in near money assets and not money paper. It helps in economizing the use of cash and provides a suitable and safe way of transferring funds from one place to another.

Instruments of Money Market:

Basically it has three most important instruments which are as follows:

1. Promissory notes
2. Bill of exchange; and
3. Treasury bills

Promissory Notes:

The promissory note is the earliest type of bill. It is a written promise on the part of a businessman to pay a certain amount of money to another businessman at an agreed future date.

Bill of Exchange:

A bill of exchange is similar to the promissory note, except in that it is drawn by the creditor and is accepted by the bank of the debtor. The creditor can discount the bill of exchange either with a broker or a bank.

Promissory notes and bills of exchange are known as trade bills.

Treasury Bills:

This is the major instrument of the money market. It is issued for varying periods of less than one year. These are issued by the government and are payable at the central bank. Treasury bills are negotiable, non-interest bearing securities with an original maturity of one year or less.

SECTION – "C"

Q. 6 (a) THE MAIN SOURCES OF ENERGY:

There are various sources which generate power. They, in brief are: Coal, Oil, Gas,

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waterfall or river currents, Nuclear, Solar, Biogas, Wind, Manpower and Animal. The importance of these sources for the supply of energy has been changing with the passage of time. Before industrial revolution, the energy for operating the machinery was mainly supplied by animals, human power and wind. With the scientific advancement, coal, oil, gas and waterfalls are used as the principal sources of energy. In developed countries of the world and now also in developing countries nuclear power and solar energy are being increasingly used for generating electricity.

There is no doubt that the modern sources of energy help in quickly broadening the development gaps, providing economies of scale, ensuring high quality standard, economising on scarce managerial and technical skills and reducing material wastage in all sectors of the economy. Pakistan is also obtaining and making use of modern sources of energy.

Electricity Generation:

The total installed capacity of electricity generation stood at 20190 MW in 2009-10. At present WAPDA, KESC, Karachi Nuclear Power Plant (KANUPP) and Chashma Nuclear Power Plant are the four main public sector organizations for transmission and distribution of electricity.

a) **Thermal Electricity Resources:**

- Coal based projects
- Oil
- Natural gas

b) **Hydel Power Resources:**

The hydel power is renewable. It is produced from waterfalls in Pakistan. There is a great potential of developing hydro power capacity. The hydel schemes, though they are being less expansive, are very useful for the development of the country. The hydro projects not only provide energy but also improve the irrigation system of the country. In addition to these, the hydro projects help in controlling floods, are used for navigation purposes, breeding fisheries, recreation etc.

c) Nuclear Energy:

The main fuel capable of generating nuclear energy is the uranium. The developed countries of the world has nuclear reactors in the mid 50's. Since then some of the developing countries including Pakistan are trying their best to have breeder reactors for converting uranium into plutonium which is used as fuel for generating energy. Pakistan is using all its available resource for the development of nuclear power as it has vast reserves of uranium.

Pakistan Atomic Energy Commission (PAEC) is responsible for nuclear power developments in Pakistan.

d) Non-Conventional Sources of Energy:

- Biogas projects
- Solar energy projects
- Wind energy projects

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Q. 6 (b) **MAIN MEASURES OF ECONOMIC DEVELOPMENT:**

There are a number of measures which have been used to estimate the economic development of a country. These measures, in brief, are:

i) Increase in real GNP
ii) Increase in real per capita income
iii) Rise in overall wellbeing of the people
iv) Basic needs approach
v) Human Development Index

Economic development is a sustained and secular improvement in the material well-being which is reflected in increase in goods and services.

Problems related to the measures of Economic Development of Pakistan:

The measurement of economic development in Pakistan is a complex issue. There are number of problems related to each measure of economic development which in brief are discussed below:

(i) Increase in real GDP. If there is increase in real GDP over a long period of time, the economy is described as having strong economic growth. In case of Pakistan the real GDP grew at an average rate of 6.6% for over the period 2002-07. It however, was not accompanied with marked structural changes which is one of the precondition for economic development. The structural changes of the economy indicates (1) a shift away from agriculture to non-agricultural activities and (2) from industry to services along with a change in the scale of productive units. The growth rates have declined to 4.1% in 2007-08 and 1.2% in 2008-09 and increased to 4.1% in 2009-10.

In case of Pakistan, the share of agriculture in GDP was 21% in 2007-08. It is necessary to mention that the shift of economic activities from agriculture to non-agricultural activities should be supported by an increase in agricultural production. The agricultural sector has shown positive growth of 4.1% in 2006-07 which declined to 1.01 in 2007-08, 4% in 2008-09 and 2% in 2009-10. The growth of industry and of services sector was 4.9 % and 4.6%.

(ii) Increase in per capita income. Increase in real per capita income over a long period of time is also considered a strong indicator of economic development. The real per capita income is gradually increasing in Pakistan. It was $836 dollar per year in 2005-06 and has increased to $921 dollar in 2006-07, $1042 in 2007-08 and $1046 in 2008-09. In fact the per capita income does not represent the standard of living of the people. We shall have to consider the level of distribution of income and the rate of inflation in the country.

(iii) Basic need approach. As regards the basic needs approach, the indicator to be included regarding basic needs change with the stage of development in a country. Therefore, they are not helpful in measuring economic development of a country.

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Q. 7 (a) MAIN CAUSES OF INDUSTRIAL SICKNESS IN PAKISTAN:

SME's represent a significant component of Pakistan's economy. It provides 78% of industrial employment, contributes 30% to GDP and generates 25% of the sector's export earnings.

The difficulties, obstacles, problems faced by industries in Pakistan are as under:

- Financial constraints
- Production cost is high
- Use of outdated machinery
- Lack of standardization
- Shortage of trained and technical persons
- Lack of co-ordination
- Lack of marketing facilities
- Inadequate and irregular supply of electricity
- Short supply of raw material
- Provision of technical training

Solution to the Problem:

The Government of Pakistan is very much alive to the problems faced by the industries. The financial constraints, lack of standardization, deterioration in the quality of the products, higher wages of the labour, foreign competition etc. are standing in the way of development of industries.

the Government of Pakistan for the promotion of the SME sector is taking measures in (a) reform of trade taxation and labour regimes (b) providing financial and technological resources to the SME's. The efforts of promotion and development of micro finance have yielded in the creation of five micro finance banks in the country. Small and medium enterprise authority (SMEDA) is working very hard in the growth of seven priority sectors i.e., jems, jewellery, dairy sports goods, fans, furniture and lights engineering, CNG pumps etc.

Q. 7 (b) GREEN REVOLUTION:

There are several factors which are responsible for break through in agricultural production. These factors mutually support each other in ushering the green revolution. The package of factors in brief are as follows:

(1) **Miracle seeds.** The primary factor which brought agricultural revolution is the introduction of high yielding variety, (HYV) seeds. The use of new variety of seeds has very much increased the agricultural yields per hectare. For example, in Pakistan, the yield of wheat was 1189 Kg per hectare in 1971-72 and has increased to 2639 Kg per hectare in 2009-10. Similarly, the yield of rice which was 1554 Kg per hectare in 1971-72 which has gone up to 2387 Kg per hectare in 2009-10.

(2) Agricultural research. The agricultural research on higher yielding plant varieties, better methods of controlling insects and diseases have resulted in higher

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production outputs.

(3) Fertilizer. The increased use of chemical fertilizer is now playing a key role in raising the agricultural production.

(4) Multiple cropping. Due to new seeds maturing early, it has now become possible to get three or even four crops instead of one or two from the same piece of land in a year.

(5) Modern machinery. The farmers are gradually replacing the bullocks cultivation by the modern machinery like tractors, thrashers harvesters, tube wells etc. The time saving use of modern machinery in agricultural sector has made it possible to sow, grow and harvest crops in the shortest possible period of time.

(6) Support prices. The new or improved technology increases agricultural production and reduces the cost per unit of output. In order to sustain agricultural progress and keep the prices of agricultural products profitable to the farmers, the government of each country offers support prices to the growers so that agriculture creates potential for higher real income to the producers.

(7) Processing, storage and marketing facilities. The processing, storage and marketing facilities have been now greatly improved and extended in almost all the countries of the world. The increased agricultural production is put to profitable use. The provision of these facilities brings facility in the prices of agricultural goods and ensures reasonable return to the growers.

(8) Credit facilities. Availability of institutional agricultural credit on time to the farming community enables it to carry out the agricultural operations efficiently.

(9) Institutional changes. Green revolution is carried out more effectively and efficiently by institutional changes like land reforms, flow of market information etc. These are also adopted along with bio chemical technology.

THE END