

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall (Winter) 2009 Examinations

Wednesday, the 25th November 2009

**BUSINESS ECONOMICS – (S-102)
STAGE – 1**

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 80

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- (i) Attempt ALL questions.
 - (ii) Answers must be neat, relevant and brief.
 - (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram / 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.
 - (vi) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.
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MARKS

SECTION – “A”

- Q.2 (a)** Specify the following terms briefly with the help of illustration: **04**
- (i) Production-Possibility Frontier (PPF)
 - (ii) Scarcity
 - (iii) Productive efficiency
 - (iv) Inputs and outputs.
- (b)** When people become wealthier time becomes the most scarce resource for them. They are highly suffocated in allocating time. Vice versa, poor want to utilize more and more time to meet the immediate demands for living. Explain with the example, specifying what steps rich and poor people would take to economize the use of the time. Compare the utilization of time of wealthy and poor persons. **06**
- (c)** When goods are limited some means must be found to ration the scarce commodity. Some examples of rationing devices are auctions, ration coupons, and “first come, first served” systems. What are the strengths and weaknesses of each of these systems? **06**
- Q.3 (a)** A good crop will generally lower the income of farmers. Specify your answer using supply and demand diagram. **06**
- (b)** Explain the meaning of utility. What is the difference between total utility and marginal utility? Explain the law of diminishing marginal utility giving a numerical example. **06**
- (c)** Suppose you have diabetes and obesity (over weight) problem. Your family physician has strictly advised you to follow the prescribed guidelines for daily intake thus reducing your present calories intake to 1800 per day. What is your consumer equilibrium for food consumption? **04**

PTO

SECTION – “B”

Q.4 (a) According to the Keynes, consumption function is an important tool of macro-economic analysis. Examine the concepts, operations and importance of the multiplier on the basis of the Keynesian theory of income and employment. **05**

(b) Hypothetically assume financial data of “Afghanistan”. You are required to compute national income using three approaches given here as under: **06**

(i) Expenditure approach	(ii) Income approach	(iii) Value added approach
(Afghanis in million)		
Government expenditure		17,000
Sales value of output of firms		65,000
Profit before tax of firms		32,000
Consumers’ expenditures		39,000
Cost of goods & services purchased from outside firms		9,000
Tax deducted from wages		4,000
Wages & salaries etc., received by employees		20,000

(c) Why does a government sometimes levy tax on the import of a product that the country can make itself? Discuss. **05**

Q.5 Country “A” had improved its exports in the financial year ended June 2009. Invisible earnings rose rapidly in the second half of the year, helping to narrow down the current account deficit. In the context of the scenario answer the following:-

(a) Define and give two examples of invisible earnings. **02**

(b) Explain what is meant by a current account deficit and what might cause such a deficit? **04**

(c) What is the difference between the balance of trade and the balance of payments? **04**

(d) The statement says that exports had improved. Why do countries prefer to have a balance of trade surplus rather than a deficit? Explain. **06**

SECTION – “C”

Q.6 (a) “The government does not do business, it rather facilitates businesses for the private sector”. Comment on this statement with reference to privatization programme and its impact on Pakistan. **08**

(b) Capital formation is one of the major factors in economic development. In this context explain capital formation and discuss the sources of capital formation in developing countries like Pakistan. **08**

THE END