

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN**

FOUNDATION-I EXAMINATION – SPRING (SUMMER), 2004

Wednesday, the 26th May, 2004

360

ECONOMICS & BUSINESS ENVIRONMENT

Time Allowed – 3 Hours

Maximum Marks–100

- (i) Attempt **THREE** question 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.

Marks

SECTION 'A'

Q 1 (a) Fill in the blanks

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- (i) Price discrimination is not profitable when elasticity of demand in both the markets is _____
- (ii) Under perfect competition the firm always earns _____ profit in the long run.
- (iii) A _____ tax is one wherein the impact and incidence lie on the same person.
- (iv) _____ is defined as high rate of inflation accompanied by high rate of unemployment.
- (v) During the period of inflation, the profits of entrepreneurs tend to _____

P.T.O.

(b) State whether the following statements are TRUE or FALSE

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- (i) Under perfect competition, the demand for the product of a firm is perfectly inelastic.
- (ii) The normal profit per unit of a product is the difference between average revenue and average cost
- (iii) The demand curve in the market period dominates in the determination of price.
- (iv) The least cost combination of factors of production for any level of output is that where the *Iso Cost Line* is tangent to the *Iso Product Curve*
- (v) The M.P.C. measures the relationship between change in *Consumption* and change in *income*.

(c) Choose the most appropriate answer out of the following alternatives :

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- (i) If all inputs are increased by 100% and the result is 120% increase in output, this would :
 - (a) illustrate the law of increasing returns
 - (b) illustrate the law of diminishing returns
 - (c) illustrate the increasing returns to scale
 - (d) contradict the principle of increasing returns to scale
- (ii) If a consumer's income falls and prices rise, _____
 - (a) the budget line will shift to the left
 - (b) the budget line will shift to the right
 - (c) the budget line will not shift
 - (d) a higher indifference curve is attainable
- (iii) In monopolistic competition, firms desire to sell more outputs at equilibrium because .

(a) Price > AC	(b) Price > MC
(c) Price < AC	(d) Price = MC

(iv) If M.P.S. (Marginal Propensity to Save) is 0.1, the multiplier has a value of

- (a) 1
- (b) 2
- (c) 5
- (d) 10

(v) The speculative demand for money is

- (a) money set aside to meet unexpected events
- (b) money set aside to invest in future
- (c) money allocated for monthly expenses
- (d) money saved to pay direct taxes

(d) Relate each concept of group "A" with the correct choice of group "B"

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	Group "A"		Group "B"
(i)	Standard metallic money	(a)	Trade off between unemployment and inflation.
(ii)	Isoquants	(b)	Face value = intrinsic value
(iii)	Returns to scale	(c)	All combinations of two inputs used to produce a given level of output.
(iv)	Prof. Robbins	(d)	Effect on outputs when all inputs are changed in the same ratio
(v)	Phillips Curve	(e)	Science of scarcity and choice.

Q 2 Explain the differences among Perfect Competition, Monopoly and Monopolistic Competition with respect to the following :

- (i) the number of firms in the industry 4
- (ii) entry and exit of firms 4
- (iii) shape of the demand curve 4
- (iv) nature of output produced 4
- (v) condition of equilibrium of a firm 4

P.T.O.

	Marks
Q 3 Discuss the implications of "Inflationary" and "Deflationary" gaps in Government Economic Policy.	20
Q 4 (a) What do you mean by term "Exchange Rate" ?	5
(b) Discuss "floating" and "fixed" exchange rates mechanism.	15

SECTION 'B'

Q 5 (a) What is agricultural credit and what are its main sources ?	10
(b) Discuss the problems of agricultural credit in Pakistan.	10
Q 6 (a) What is "deficit financing" ?	5
(b) Examine the reasons and need of deficit financing as a tool for stimulating economic development of Pakistan.	15
Q 7 (a) What do you understand from 'Loans', 'Credits' and 'Grants'. Which is the most useful form of foreign economic assistance and why ?	10
(b) Discuss the impact of loans, credits and grants on the economic development of Pakistan.	10

THE END
