

**ECONOMICS, PAPER-I**

**FEDERAL PUBLIC SERVICE COMMISSION  
COMPETITIVE EXAMINATION FOR  
RECRUITMENT TO POSTS IN BPS-17 UNDER  
THE FEDERAL GOVERNMENT, 2009**

**ECONOMICS, PAPER-I**

S.No.	
R.No.	

<b>TIME ALLOWED:</b>	<b>(PART-I) 30 MINUTES</b>	<b>MAXIMUM MARKS:20</b>
	<b>(PART-II) 2 HOURS &amp; 30 MINUTES</b>	<b>MAXIMUM MARKS:80</b>

- NOTE:** (i) First attempt **PART-I (MCQ)** on separate **Answer Sheet** which shall be taken back after **30 minutes**.  
(ii) **Overwriting/cutting of the options/answers will not be given credit.**

**PART – I (MCQ)**  
**(COMPULSORY)**

**Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (20)**

- (i) Modern microeconomic theory generally regards utility as:  
(a) cardinal (b) ordinal  
(c) independent (d) Republican
- (ii) A basic assumption of the theory of consumption choice is that:  
(a) the consumer tries to get on the highest indifference curve  
(b) the consumer tries to get the most of good Y  
(c) the budget line is concave  
(d) none of these
- (iii) The substitution effect must always be:  
(a) positive (b) negative  
(c) zero (d) bigger than the income effect
- (iv) The income effect:  
(a) must always be negative (b) must always be positive  
(c) can be negative or positive (d) must be smaller than substitution effect
- (v) Normal goods experience an increase in consumption when:  
(a) real income increase (b) real income falls  
(c) price rises (d) tastes change
- (vi) The demand for a good is price inelastic if:  
(a) the price elasticity is one (b) the price elasticity is less than one  
(c) the price elasticity is greater than one (d) all of these
- (vii) A demand curve with unitary elasticity at all points is:  
(a) a straight line (b) a parabola  
(c) a hyperbola (d) all of these
- (viii) The marginal product equals the average product when the latter is:  
(a)  $\frac{1}{2}$  of its maximum value (b)  $\frac{1}{4}$  of its maximum value  
(c) equals to its maximum value (d) equals to its minimum value
- (ix) A firm's aspiration level is:  
(a) its profits last year  
(b) the boundary between "satisfactory" and "unsatisfactory" outcomes.  
(c) its highest previous profit level (d) none of these
- (x) The firm's cost functions are determined by:  
(a) the price of its product (b) its assets  
(c) its production function (d) the age of the firm
- (xi) The following industry often is a natural monopoly:  
(a) cigarette industry (b) publishing industry  
(c) drug industry (d) electric power industry
- (xii) Recognizing that the assumptions of perfect competition never hold at all precisely, the perfectly competitive model is:  
(a) interesting mainly for academic studies  
(b) outmoded and seldom used even by academic economists  
(c) of considerable use to industrial economists, as well as academic economists  
(d) all of these

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- (xiii) Under perfect competition, rivalry is:
  - (a) impersonal
  - (b) very personal and direct, advertising being important
  - (c) nonexistent since the firms cooperate
  - (d) all of these
- (xiv) If average total cost is less than marginal cost at its profit-maximizing output, a perfectly competitive firm:
  - (a) will make positive profit
  - (b) will operate at a point to the right of the minimum point on the average total cost curve
  - (c) will not discontinue production
  - (d) all of these
- (xv) Monopolies arise as a consequence of:
  - (a) patents
  - (b) control over the supply of a basic input
  - (c) franchise
  - (d) all of these
- (xvi) A monopolistic firm will expand its output when:
  - (a) marginal revenue exceeds marginal cost
  - (b) marginal cost exceeds marginal revenue
  - (c) marginal cost equals marginal revenue
  - (d) marginal revenue is negative
- (xvii) A monopolist will never produce at a point where:
  - (a) demand is price-inelastic
  - (b) demand is price-elastic
  - (c) marginal cost is positive
  - (d) marginal cost is increasing
- (xviii) When demand is elastic:
  - (a) a fall in price is more than offset by an increase in quantity demanded, so that total revenue rises.
  - (b) the good is probably a necessity, so price has little effect on quantity demanded
  - (c) a rise in price will increase total revenue, even though less is sold.
  - (d) buyers are not much influenced by prices of competing products
- (xix) If the price elasticity of demand for product is 0.5, this means that:
  - (a) a 1 percent change in price will change quantity demanded by 50%
  - (b) a 1 percent increase in quantity demanded is associated with a 0.5 percent fall in price
  - (c) a 1 percent increase in price is associated with 0.5% fall in quantity demanded
  - (d) a 1 percent increase in price will cause a 0.5% increase in quantity demanded.
- (xx) Price elasticity of demand for a commodity tends to be greater:
  - (a) the more of a necessity it is
  - (b) the more substitutes there are for it
  - (c) over shorter time periods
  - (d) the lower the price.

**PART – II**

<b>NOTE:</b>	<ul style="list-style-type: none"><li>(i) <b>PART-II</b> is to be attempted on the separate <b>Answer Book</b>.</li><li>(ii) Attempt <b>ONLY FOUR</b> questions from <b>PART-II</b>. All questions carry <b>EQUAL</b> marks.</li><li>(iii) Extra attempt of any question or any part of the attempted question will not be considered.</li></ul>
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- Q.2.** Critically examine the elasticity of demand with reference to Price of the commodity and Income of the consumer. **(20)**
- Q.3.** Differentiate between Perfect Competition and Monopoly. Which one is followed by the real world? If not, then name the existing one. **(20)**
- Q.4.** Explain the Keynesian Consumption Function with suitable examples. **(20)**
- Q.5.** Why we demand for Money? Explain each one of them. **(20)**
- Q.6.** It is said that “Consumer Financing through Banking system is dangerous”. Explain **(20)**
- Q.7.** Differentiate between Balance of Trade and Balance of Payments with suitable examples. **(20)**
- Q.8.** “Economic Growth is linked to the Development of Banking System.” Explain. **(20)**

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