

**KHYBER PAKHTOON KHWA PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR THE POSTS OF
PROVINCIAL MANAGEMENT SERVICES (BPS-17) 2016**

ECONOMICS PAPER- I

Time Allowed: 3 Hours

Maximum Marks: 100

Notes: Attempt five questions in all, selecting at least two questions from each part.
All questions carry equal weight. Keep up to the point and avoid unnecessary details.
Support your answers by suitable diagrams/Mathematical treatment, where necessary.

Part A

- Q.1 a. Discuss the properties of indifference curves with due rationalization.
b. Show that the law of equi-marginal utilities is instantly derived where the indifference curve is tangent to the budget line.
- Q.2 a. Define the elasticity of demand. Highlight its importance and discuss the factors (other than own price) that affect demand elasticity.
b. Let the demand and supply functions for a commodity be given as under:
Demand: $Q^d = 135 - 8P$ Supply: $Q^s = 16P - 45$ Market Clearing Condition: $Q^d = Q^s$
Calculate the elasticity of demand at equilibrium point (P^* , Q^*)
- Q.3 Consider two firms, one competitive and the other enjoying some monopoly in the market.
a. Compare and contrast their relative positions in terms of revenues, costs & profit functions.
b. Why do monopolies emerge in the markets?
c. Discuss the relevance of marginal cost pricing practice followed in case of public utilities.
- Q.4 Write short notes on any two of the following:
a. Average and Marginal Cost functions and their mutual relationship.
b. Economies of scales and Returns to scales
c. Income and substitution effects of a price change.
d. Normal and inferior goods in terms of Engel's law

Part B

- Q.5 a. Discuss the terms Value Added, Aggregate Demand and National Income. How the three concepts are inter-related in national income accounting.
b. What is the difference between Personal Income and Disposable Income?
c. How the two measures GDP (at market prices) and GDP (at factor cost) are inter-related?
d. "The per capita income is only a rough indicator of the standard of living of masses".
Comment on the statement.
- Q.6 The major function of central bank is to control the supply of money in the economy. Discuss the various measures or instruments it can use for the purpose.
- Q.7 The government can adopt various strategies to fill up the budget gap. Elaborate on the strategies concerned and discuss the merits and demerits of each.
- Q.8 Differentiate clearly between balance of trade and balance of payments. What are the main problems with the balance of payments of developing countries like Pakistan?

Good Luck