

# Punjab Public service Commission for Economics Exam

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Punjab Public Service Commission FPSC Lecturer Economics Mcqs Paper for Written Test Preparation

Lecturer Economics Mcqs Paper for Written Test Preparation

1. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?

- a. total revenue
- b. marginal physical product
- c. marginal revenues product
- d. marginal revenue

2. Workers      Quantity Produced

1	15
2	28
3	39
4	48
5	55
6	60

This company is a profit-maximizing firm selling in a competitive product market and hiring in a competitive labor market. It uses semi-skilled labor to produce dampers used in office building ventilation systems. Assume that the current market price per damper is \$50 and that the prevailing weekly salary per semi-skilled worker is \$550. This company should employ \_\_\_\_\_ workers.

- a. 2
- b. 3
- c. 4
- d. 5
- e. 6

3. The demand for labor is the same as the

- a. marginal revenue product
- b. marginal physical product
- c. marginal cost
- d. wage

4. The demand for labor slopes down and to the right because of

- a. the law of demand
- b. the iron law of wages
- c. the law of diminishing marginal returns
- d. economies of scale

5. The demand for labor will be more elastic if:

- a. there are few substitutes for labor
- b. there is a short time under consideration
- c. labor is a large percent of the total cost of production
- d. the demand for the product is relatively inelastic
- e. all of the above

6. Skills that can be transferred to other employers are called:

- a. general skills
- b. specific skills

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- c. non-pecuniary skills
  - d. all of the above
7. Which skills are most likely to be paid for by the employer?
- a. General skills
  - b. Specific skills
  - c. Educational skills
8. If worker A earns more in wages than worker B, it could be because:
- a. The product made by worker A sells for a higher price than that made by worker B
  - b. Worker A uses more capital per worker than worker B
  - c. Worker A has more natural ability than worker B
  - d. All of the above
9. Skills that embodied in a person are called
- a. Human capital
  - b. Embodied skills
  - c. Physical capital
  - d. Experience skills
10. "Treating an individual as typical of a group" is the definition of
- a. pure discrimination
  - b. statistical discrimination
  - c. human capital
  - d. specific skills

Answers: C B A C C A B D A B

1. Which of the following is a characteristic of pure monopoly?
- a. one seller of the product
  - b. low barriers to entry
  - c. close substitute products
  - d. perfect information
2. In pure monopoly, what is the relation between the price and the marginal revenue?
- a. the price is greater than the marginal revenue
  - b. the price is less than the marginal revenue
  - c. there is no relation
  - d. they are equal
3. In order to maximize profits, a monopoly company will produce that quantity at which the:
- a. marginal revenue equals average total cost
  - b. price equals marginal revenue
  - c. marginal revenue equals marginal cost
  - d. total revenue equals total cost
4. Quantity Price Total Cost
- 1 \$100 \$ 60
  - 2 95 130
  - 3 90 210
  - 4 85 300
  - 5 80 400

This monopolist should produce:

- a. 1
- b. 2
- c. 3
- d. 4

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- e. 5
5. Compared to the case of perfect competition, a monopolist is more likely to:
- charge a higher price
  - produce a lower quantity of the product
  - make a greater amount of economic profit
  - all of the above
6. Which of the following is necessary for a natural monopoly?
- economies of scale
  - a high proportion of the total cost is the cost of capital goods
  - the market is very small
  - all of the above
7. Which of the following is true about the way by which SDG&E has been regulated by the PUC?
- SDG&E has been allowed to earn very high economic profits
  - The profits of SDG&E are calculated as a percent of the value of the capital goods
  - When the demand for electricity would fall, the price of electricity would also fall
  - All of the above
8. Which of the following best defines price discrimination?
- charging different prices on the basis of race
  - charging different prices for goods with different costs of production
  - charging different prices based on cost-of-service differences
  - selling a certain product of given quality and cost per unit at different prices to different buyers
9. In order to practice price discrimination, which of the following is needed?
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  - an ability to separate the market
  - an ability to prevent reselling
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10. In price discrimination, which section of the market is charged the higher price?
- the section with the richest people
  - the section with the oldest people
  - the section with the most inelastic demand
  - the section with the most elastic demand

Answers: A A C C D D B D D C

Economics MCQs for Public Service Commission Lecturers' Test

Posted by staff on 23 January 2014, 3:48 am

Economics MCQs for Public Service Commission Lecturers' Test

Economics MCQs Lecturers' Test

1. Polulation theory Malthus-
2. Labour planning-
3. Labour welfare does not include= health, edu, home, and quick promotion
4. Micro economics refers to individual unit
5. Proportional tax is flat tax
6. Most regressive is sales tax

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7. Capitalism refers to
8. Per capita income formula national income divided by population
9. Canon of equity social justice, porgressive tax, both a and b(correct answer) and none of these
10. Index to measure inflation-CPI
11. Propensity to consume
12. Isoquant is convex to origin
13. Inconsistent to notion of profit competition-
14. Assumption indifference curve-
15. Monopsony -one purchaser/buyer
16. Law of demand
17. Depreciation value-capital good
18. Devaluation –official decrease in money
19. Demand curve-ordinary good
20. Difference between economic profit and account profit
21. Central bank-not function: a) loan business and individual
22. Money function-a) medium of exchange and store value
23. Monetary policy- to supply money
24. In marketing selling and buying: primary function
25. Buyer market in which b) supply exceeds demand
26. Transfer of payment:
27. Normative economics

### Mcqs Economics From Past Papers For Subject Specialist & Lecturer Exams

- (1) The greatest requirement for economic development is:
  - (a) To sacrifice present enjoyment for tomorrow's benefit.
  - (b) Increase in National income.
  - (c) Invention and innovation in all productive sectors
  - (d) Mechanization of agriculture
- (2) Per Capita output would probably rise but output per worker would fall if;
  - (a) Capital deepening occurred rapidly.
  - (b) Labour force participation rate of the population rose
  - (c) Technical education of the work
  - (d) Involuntary saving was increased
- (3) Most of underdeveloped countries are agricultural with low income and needs:
  - (a) Increase in income of the people depends upon agriculture output.
  - (b) Land can be owned collectively.
  - (c) Land can be owned by large capitalist farmers.
  - (d) Land can be owned by labourers who fill it.
- (4) Voluntary saving will most likely increase if:
  - (a) Tax rates are increased
  - (b) Interest rate rise
  - (c) Distribution of income becomes more unequal
  - (d) The rate of inflation increase
- (5) Economic growth:
  - (a) Is synonymous with economic development
  - (b) Refers to qualitative change experienced by an economic system

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- (c) When an economic system acquires greater productive capacity.
- (d) Always result in increased real per capita output
- (6) Capital deepening:
  - (a) Is an increase in the ratio of labour to capital
  - (b) Necessarily increases real per capita output
  - (c) Is less likely to be effective in fostering growth in rich countries than in poor countries
  - (d) Can occur when saving rates are zero
- (7) Interest of the developed world in the development of under developed economies on:
  - (a) General political freedom and promotion of free societies
  - (b) If world is not free their freedom would be in danger
  - (c) They want to stop and check tyranny and aggression
  - (d) Developed countries need customers for their surplus production.
- (8) GNP at factor cost may be best defined as:
  - (a) The total of goods and services produced within an economy over a given time period.
  - (b) The total of expenditure of consumers on domestically produced goods and services.
  - (c) All incomes received by residents in a country in return for factor services provided domestically and abroad.
  - (d) The value of total output produced domestically plus net property income from abroad minus capital consumption
- (9) Which one of the following is a transfer payment in National income accounting?
  - (a) Educational scholarship
  - (b) Salaries of employees
  - (c) Payments for text books
  - (d) Payment for examination fee
- (10) Which is the basic concept which underlies accelerator theory of investment?
  - (a) Investment depends on the level of savings
  - (b) Investment is inversely related to the rate of interest
  - (c) Investment is determined by the volume of Commercial Bank Lending
  - (d) Investment rises when there is an increase in the rate of growth of demand in the economy
- (11) Which one of the following would cause a fall in the level of aggregate demand in the economy?
  - (a) A decrease in the level of imports
  - (b) A fall in the propensity to save
  - (c) A decrease in government expenditure
  - (d) A decrease in the level of income tax
- (12) Capital formation remained very low in Pakistan due to:
  - (a) Low saving rate
  - (b) Savings are not fully invested
  - (c) Money and capital market are not suitable
  - (d) Due to high rate of inflation purchasing power is very low
- (13) Efficient allocation of resources in an economy occurs whenever:
  - (a) Prices is equated to Marginal social cost in some units
  - (b) Income and wealth are distributed in a fair way
  - (c) There is full employment of resources
  - (d) The existing resource allocation cannot be changed without making it worse off.
- (14) When a worker earns more than the just sufficient to keep him in his job, the excess income is called:
  - (a) An opportunity cost

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- (b) An economic rent
  - (c) Transfer earnings
  - (d) Surplus value
- (15) There are 5 workers in a field and each one is paid at the rate of Rs. 200 per day. Later on raising wage rate by Rs. 50 per day to attract one more worker. If other costs remain constant, marginal input cost of employing the additional worker is:
- (a) Rs. 400
  - (b) Rs. 45
  - (c) Rs. 700
  - (d) Rs. 300
- (16) If state wishes to stimulate consumption, which one of the following measures be the most effective?
- (a) Increase in aid to agriculture and industry
  - (b) An increase in old age pension
  - (c) A decrease in higher rates of income tax
  - (d) A decrease in personal tax allowances
- (17) The incidence of tax refers to:
- (a) Who economically bear the burden of the tax
  - (b) The canons of taxation
  - (c) Type of tax, direct or indirect tax
  - (d) Whether the tax is continuously or periodically levied.
- (18) During the inflationary period, when income tax revenue rises faster than National income, this illustrates:
- (a) The situation of unemployment trap.
  - (b) The poverty trap
  - (c) Fiscal boost
  - (d) Fiscal drag
- (19) A balance of payment surplus may cause:
- (a) Employment and the money supply to rise.
  - (b) The money supplies to fall
  - (c) Employment to rise and the money supply to fall
  - (d) Employment and the money supply to fall.
- (20) Green revolution refers to:
- (a) Introduction of modern technology
  - (b) Reform in land tenure system
  - (c) Introduction of agro-based industry
  - (d) Boosting exports of agricultural products

FPSC Lecturer Economics Mcqs for Written Test Preparation

1. The largest source of tax revenue for the federal government is:

- a. the personal income tax
- b. the social security tax
- c. the property tax
- d. the sales tax

2. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I

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paid \$40,000 in taxes. My marginal tax rate is:

- a. 10%
- b. 20%
- c. 30%
- d. 40%

3. The tax in question #2 is:

- a. progressive
- b. regressive
- c. proportional

4. Which of the following taxes is regressive?

- a. the federal income tax
- b. the state income tax
- c. the sales tax
- d. the Medicare tax

5. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 20 units of A at a price of \$20 and 30 units of B at a price of \$30. The Nominal GDP for 2002 is:

- a. \$100
- b. \$400
- c. \$500
- d. \$900
- e. \$1300

6. Using the numbers in question 5, the Real GDP for 2002 is:

- a. \$400 b. \$500 c. \$800 d. \$900 e. \$1,300

7. Which of the following statements is/are true?

- a. Business Investment Spending occurs when individuals buy stock in the stock market
- b. Productivity in the United States grew very slowly between 1973 and 1996
- c. Because of discouraged workers, the official unemployment rate is too high
- d. "Full employment" occurs when there is no frictional unemployment

8. Immediately after a trough, we would expect to have a/an

- a. peak
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9. Last week, Martha spent one day cleaning a house. For this, she was paid \$50. The rest of the week, she spent looking for a job. Martha would be classified as

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10. John lost his accounting job when Montgomery Wards closed its stores in San Diego. He

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looked for a similar job for ten months before finding an accounting job at Sears. During the month John was unemployed, he was

- a. frictionally unemployed
- b. seasonally unemployed
- c. cyclically unemployed
- d. structurally unemployed

Answers: A C A C E C B C A D

1. Which of the following IS a function of money?

- a. medium of exchange
- b. store of value
- c. unit of accounting
- d. all of the above

2. Which of the following is a component of M-1?

- a. savings deposits
- b. credit card
- c. checkable deposits
- d. gold

3. Which of the following is a NOT component of M-2?

- a. small time deposits
- b. money market mutual funds
- c. stocks
- d. checkable deposits

4. Which of the following is true about the Federal Reserve System (Fed)?

- a. it is a system of 12 central banks
- b. its Board of Governors is elected by a vote of the people
- c. its main policy-making body is the FDIC
- d. it accepts deposits from the public and makes loans to businesses
- e. all of the above

5. An IOU of the Federal Reserve Bank of San Francisco to Bank of America is called:

- a. discounts
- b. federal funds
- c. reserves
- d. collateral

6. Which of the following is the most liquid?

- a. a savings account
- b. a 6 month CD
- c. a home
- d. water



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7. The monetary base is composed of:

- a. gold and silver
- b. currency only
- c. currency and reserves
- d. currency and checkable deposits

8. If the monetary base is increased by \$1,000 and the reserve requirement is 10% ( $1/10$ ), by how much will the money supply be increased?

- a. \$100
- b. \$1,000
- c. \$5,000
- d. \$10,000

9. If the Federal Reserve wishes to increase the money supply, it should:

- a. raise the reserve requirement
- b. raise the discount rate
- c. buy Treasury securities in the open market
- d. all of the above

10. An increase in the money supply will cause interest rates to

- a. rise
- b. fall
- c. remain unchanged

Answers: D C C A C A C D C B

Economics MCQs

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Answers: A C A C E C B C A D

1. Define average tax rate

Define marginal tax rate

2. Define progressive tax

Define regressive tax

Define proportional tax

3. Define indexation

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4. Define Nominal Gross Domestic Product (GDP)  
Define Real Gross Domestic Product (GDP)
5. Define business investment spending
6. Briefly explain how the official unemployment rate is calculated.
7. Define frictional unemployment  
Define cyclical unemployment  
Define structural unemployment  
Define "full employment"

### Economics MCQs For PCS Exam

1. To determine the correct level of GNP, it is necessary to.
  - a. to add up the values of goods and services during one year.
  - b. add up all savings
  - c. to count all imports
  - d. to add up the value of semi finished goods

Answer is = A

2. GNP is always
  - a. less than NNP
  - b. Greater than NNP
  - c. Equal to NNP
  - d. Any of a, b, c

Answer is = B

3. The four factor payment are:
  - a. Money, capital, salaries and income
  - b. Wages, rent, interest and profits
  - c. Money, power, present age, and wealth
  - d. Wages, interest, salaries, and income.

Answer is = B

4. We measure national income by this method
  - a. Expenditure method
  - b. income method
  - c. product method
  - d. all of the above

Answer is = D

5. Transfer payment means
  - a. Bank loans
  - b. The payment without work

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- c. Text payments
  - d. Payments made to all factors of production
- Answer is = B

6. Which statement is true
- a. National expenditure= National income
  - b. National Expenditure= National income+ National production
  - C. National Expenditure= National income+ National Taxes
  - d. National Expenditure= National income- Taxes
- Answer is = A

7. If we compare GDP and GNP, then
- a.  $GNP = GDP - \text{net income from abroad}$
  - b.  $GNP = GDP + \text{net income from abroad}$
  - c.  $GNP = NNP - \text{net income from abroad}$
  - d.  $GNP = NNP + \text{net income from abroad}$
- Answer is = B

8. A TV set purchased from a retail store is an example of
- a. Intermediate goods
  - b. Capital goods
  - c. Surplus goods
  - d. Final goods
- Answer is = D

9. GNP is ?
- a. Total sales in the economy
  - b. Total monetary transactions in an economy
  - c. The market values of all goods and services produced in an economy
  - d. Total spending in an economy
- Answer is = C

10. GNP includes
- a. A loan from bank
  - b. A loan from one's parents
  - c. Gifts and donations
  - d. A broker's commission
- Answer is = D

11. Net Investment is
- a. Gross Investment minus household Investment
  - b. Gross Investment minus govt.
  - c. Gross investment minus capital consumption allowance
  - d. None of the above
- Answer is = C

12. Market value of all final goods and services produced in a country during a year is definition of

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- a. NI
  - b. NNP
  - c. GNP
  - d. Consumption
- Answer is = C

13. Consumption spending does not include
- a. Household's purchases of food
  - b. Household's purchases of a career
  - c. Household's payment of rent for an apartment
  - d. Household's purchases of stock in any XYZ corporation
- Answer is = D

14. Which of the following would increase national income
- a. Increases in taxation
  - b. Increase in savings
  - c. Increases in govt spending
  - d. Decreases in consumption spending
- Answer is = C

15. Which of the following is a withdrawal from the circular flow income stream.
- a. Investment
  - b. Subsidies
  - c. Taxation
  - d. consumption
- Answer is = C

16. Pakistan's saving rate is
- a. 5 %
  - b. 14.4 %
  - c. 25 %
  - d. 35 %
- Answer is = B

17. In the world population-wise Pakistan is
- a. 3rd
  - b. 4th
  - c. 6th
  - d. 8th
- Answer is = C

18. Population growth rate in Pakistan is
- a. 1 %
  - b. 1.73 %
  - c. 1.9 %
  - d. 4 %
- Answer is = B



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19. According to the Economic Survey of Pakistan 2008-09 Pakistan's per capita income is U.S. dollars

- a. 320
- b. 1046
- c. 950
- d. 1520

Answer is = B

20. Which is most likely to cause a more even distribution of income

- a. An increases in indirect taxes
- b. An increases in managers' salaries
- c. An increases in progressive taxation
- d. An increases in an rate of inflation

Answer is = C

21. Working population is ———— percent of total population of Pakistan

- a. 20 %
- b. 30 %
- c. 40 %
- d. 50 %

Answer is = B

22. Pakistan started its first five-year plan in

- a. 1947
- b. 1950
- c. 1955
- d. 1960

Answer is = C

23. Contribution of agriculture in Pakistan's national income is

- a. 20 %
- b. 24 %
- c. 28 %
- d. 26 %

Answer is = B

24. Contribution of industrial sector in Pakistan economy is

- a. 28 %
- b. 18 %
- c. 8 %
- d. —Undetermined

Answer is = B

25. Size of Pakistan's 8th plan was in ————rupees:

- a. 700 billion
- b. 1700 billion
- c. 2700 billion

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d. 3700 billion

Answer is = B

26. Pakistan produces—————of its oil requirements

a. 25 %

b 35 %

c. 45 %

d. 55 %

Answer is = A

27. Economic development

a. it same is as economic growth

b. Means improvement in lifestyle

c. Exists when there is equal distribution of income

d. All of the above

Answer is = B

28. Economic development is measured on the basis of

a. Increases in nominal GNP

b. Increases in real GNP

c. Increases in personal incomes

d. Increases in government revenue

Answer is = B

29. The govt. can control inflation by

a. Increasing demand for goods

b. Increasing supply of goods

c. Increasing money supply

d. Decreasing taxes

Answer is = B

30. Government of Pakistan issues currency on the basis of:

a. Availability of gold in the country

b. Availability of dollar in the country

c. Demand for money in the country

d. Tax collection

Answer is = C

31. Which property the paper money dose not possession

a. Acceptability

b. Divisibility

c. Durability

d. Portability

Answer is = C

32. Velocity of circulation of money means.

a. the number of times a unit of money changes hand's daily

b. the number of times a unit of money changes hands monthly

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- c. the number of times a unit of money changes hands annually
- d. the number of times a unit of money changes hands value

Answer is = C

33. When the nation's money supply is Rs. 1200 billion and GDP is Rs. 4800 billion, velocity of money is

- a. 0.25
- b. 4
- c. 0.4
- d. 4 billion rupees

Answer is = B

34. If quantity of money is doubled, than according to Quantity Theory, value of money is

- a. Remains constant
- b. Double
- c. Half
- d. None of the above

Answer is = C

35. According to Keynes, demand for money is affected by

- a. Income
- b. Rate of interest
- c. Literacy rate
- d. A and B of above

Answer is = D

36. Which people of most likely to again during inflation?

- a. Those living on pension
- b. Those living on there saving
- c. Those who are repaying borrowed money

Answer is = C

37. If quantity of money increases 100 % other things remaining constant, value of changes by

- a. Increases by 100 %
- b. Decreases by 100 %
- c. Decreases by 200 %
- d. Dose not changes

Answer is = B

38. When banks prepare their balance sheets, they show the money lent in

- a. Liability
- b. Assets
- c. Both assets and liabilities
- d. None

Answer is = B

39. The power of a bank to create credit is affected by

- a. The cash reserve requirements

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- b. The amount of cash available
- c. The number of branches of a bank
- d. A and B of above

Answer is = D

40. A bank has Rs. 5 million in cash. The minimum reserve ratio is 20 %. What is maximum potential increases in total deposits?

- a. 0
- b. 5m
- c. 10m
- d. 25m

Answer is = D

41. When a commercial bank creates credit, its immediate effect is that it raises

- A. The exchanges rate
- B. The insert rate
- C. The money supply
- D. The real national income

Answer is = C

42. State Bank of Pakistan was established in

- A. 1948.
- B. 1950
- C. 1952
- D.1954

Answer is = A

43. 10-rupee note is issued by

- A. National Bank
- B. State Bank
- C. Govt of Pakistan
- D. Governor state Bank

Answer is = B

44. Which is the most widely used tool of monetary policy?

- A. Clearing house
- B. open market operations
- C. discount rate
- D. issuing of notes

Answer is = B

45. when the state bank wants to decrease money supply in the country, it

- A. buys govt securities in stock market
- B. sells govt. securities
- C. lowers discount rate
- D.B and C of above.

Answer is = B

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46. Central bank's rate of lending to commercial banks is called

- A. Interest rate
- B. discount rate
- C. money rate
- D. control rate

Answer is = B

47. When a central bank wants to increase money supply in circulation it called?

- A. Purchase govt. securities
- B. Lowers bank rate
- C. Directs banks to advance more loans
- D. A and B

Answer is = D

48. Every country establishes central bank to

- A. Issue notes
- B. Supervise commercial banks
- C. Give loans to businessmen
- D. A and B

Answer is = D

49. Which is a monetary measure to increase employment?

- A. Increase in Govt . expenditure
- B. Reduce Govt. expenditure
- C. Increase in Interest rate
- D. Reducing interest rate

Answer is = D

50. Treasury bill is used for

- A. Getting short term loans
- B. Getting long term loans
- C. Treasury bill is not credit instrument
- D. Treasury bill is a Govt. tax bill

Answer is = A

Economics Mcqs For Public Service Commission Exams

1. Income elasticity of demand for an inferior good is:

- a) Positive
- b) Zero
- c) Both (a) & (b)
- d) None of these

2. Convexity means averages are \_\_\_\_\_ than extremes:

- a) Worse
- b) Positive
- c) Better
- d) None of these

3. Sum of MPC and MPS equals:
- a) 2
  - b) 3
  - c) 4
  - d) None of these
4. During the Liquidity Trap, LM curve is:
- a) Less elastic
  - b) Positive
  - c) Perfectly elastic
  - d) None of these
5. The dominant factor of production is:
- a) Energy
  - b) Labour
  - c) Technology
  - d) None of these
6. GDP deflator is a ratio between:
- a) Input prices
  - b) Output prices
  - c) Both (a) & (b)
  - d) None of these
7. During monopoly, the equilibrium condition is:
- a)  $MC = P$
  - b)  $MC > MR$
  - c)  $MC = MR$
  - d) None of these
8. During Perfect competition, the firm would earn a normal profit when:
- a)  $AC > AR$
  - b)  $AR = AC$
  - c)  $P = MP$
  - d) None of these
9. Roy's identity is applied on:
- a) Food
  - b) Bread
  - c) Utility
  - d) None of these
- 10) The following is the narrowest measure of supply of money:
- a) M2
  - b) M3
  - c) M1
  - d) None of these

11) A positive externality in which a consumer wishes to possess a good in part because others do:

- a) Supply
- b) Concavity
- c) Money demand
- d) None of these

12) The Profit function is of:

- a) Homogeneous of degree = 1
- b) Homogeneous of degree = 2
- c) Homogeneous of degree = 0
- d) None of these

13) The derivative of cost function with respect to output price provides:

- a) Input supply function
- b) Output supply function
- c) Both (a) & (b)
- d) None of these

14. A strategy that is optimal, no matter what an opponent does:

- a) Dominant firm
- b) Duopoly
- c) Dominant strategy
- d) None of these

15. A devaluation of a currency takes place under:

- a) Flexible exchange rate
- b) Fixed exchange rate
- c) Clean Floating system
- d) None of these

16. Nominal interest rate is:

- a) Inflation minus Tax
- b) Tax plus indirect Tax
- c) Real interest rate minus Inflation
- d) None of these

17. An un- anticipated increase in money supply is neutral during:

- a) Short run period
- b) Medium run period
- c) Both (a) & (b)
- d) None of these

18. A rise in general price level shifts the LM curve:

- a) Down and to the right
- b) Up and to the left
- c) Positively sloped

d) None of these

19. Decrease in Tax shifts the IS curve:

- a) Down and to the left
- b) Negatively sloped
- c) Up and to the right
- d) None of these

20. Gross National Product is:

- a) GDP – NNP
- b) NFA – GNI
- c) GDP – NX
- d) None of these

1. Foreign aid comprises of:

- a) Grants
- b) Loans
- c) Both (a) & (b)
- d) None of these

2. Per capita income of Pakistan during the fiscal year 2011-12 was:

- a) \$ 1258
- b) \$ 1372
- c) \$ 1025
- d) \$ 1050
- c) Both (a) & (b)
- d) None of these

3. The GINI coefficient is measures of:

- a) Inequality
- b) Poverty
- c) Growth
- d) Development
- e) None of these

4. During the last decade income inequality in rural areas of Pakistan has:

- a) Increased
- b) Decreased
- Remained unchanged
- d) None of these

5. The share of agriculture in GDP is:

- a) 21%
- b) 10%
- c) 12%
- d) 17%
- e) None of these



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6. During 1970's the planning was concerned to:
- a) Industrial Planning
  - b) Export Promotion
  - c) Import Substitution
  - d) Structural Planning
  - e) None of these
7. National Saving as a percent of GDP during 2011-2012 was:
- a) 10.7
  - b) 13.1
  - c) 9.5
  - d) 8.8
  - e) None of these
8. The growth rate of manufacture sector during 2011-12 was:
- a) 1.7%
  - b) 4.1%
  - c) 5.2%
  - d) 3.6%
  - e) None of these
9. The best measure of economic development among following is:
- a) NNP
  - b) HDI
  - c) GDP
  - d) All of these
  - e) None of these
10. The main objective of Monetary or fiscal policy is:
- a) Economic stabilization
  - b) Efficiency
  - c) Both (a) & (b)
  - d) None of these
11. Direct taxes during 2011-12 was:
- a) 37%
  - b) 63%
  - c) 15%
  - d) None of these
12. Public debt as a percent of GDP for 2011-12 was:
- a) 58%
  - b) 65%
  - c) 50%
  - d) 45%
  - e) None of these
13. Govt. of Pakistan borrows from:

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- a) Internal sources
- b) External sources
- c) Pakistani banks
- d) All of these
- e) None of these

14. Growth rate of agriculture sector during 2011-12 was:

- a) 3.1%
- b) 5.4%
- c) 2.9%
- d) 2.1%
- e) None of these

15. Nationalization of industries took place during the regime of:

- a) Z.A Bhutto
- b) Zia ul Haq
- c) Ayub Khan
- d) None of these

16. Development economics is concerned with:

- a) Efficiency allocation of scarce resources
- b) Economic, social and political institutions
- c) Imperfect resources and commodity markets
- d) (a) and (b) only
- e) None of these

17. The last land reforms in Pakistan were introduced in:

- a) 1972
- b) 1977
- c) 1981
- d) 1958
- e) None of these

18. IMP advances loan for:

- a) Construction
- b) Balance of payment
- c) Travelling
- d) None of these

19.. Sixth five year plan covers the period:

- a) 1965-70
- b) 1960-65
- c) 1988-93
- d) 1983-88
- e) None of these

20. The unemployment rate in Pakistan during 2010-11 was:

- a) 7%

- b) 5%
- c) 3%
- d) 6%
- e) None of these

### Economics Mcqs For Pcs Exams

(i) Ceteris paribus is a Latin term meaning:

- (a) "one by one"
- (b) "equal under the law."
- (c) "other things being equal."
- (d) "in accordance with the law."

(ii) The slope of a curve is:

- (a) constant in the case of a straight line
- (b) positive in the case of a direct relationship
- (c) negative in the case of an inverse relationship
- (d) equal to the change in vertical movement divided by the change in horizontal movement.

(iii) If the quantity of X increases whenever the price of X decreases, one can conclude that:

- (a) the relationship between the price and the quantity of X is direct
- (b) the relationship between the price and the quantity of X is inverse
- (c) the relationship between the price and the quantity of X is linear
- (d) the relationship between the price and the quantity of X is nonlinear

(iv) A simultaneous decrease in demand and supply will always result in:

- (a) a decrease in the equilibrium price
- (b) an increase in the equilibrium price
- (c) a decrease in the equilibrium quantity
- (d) an increase in the equilibrium quantity

(v) The marginal utility of a good refers to the:

- (a) total utility of the good prior to consumption of the last unit
- (b) extra utility associated with consuming another unit of the good
- (c) utility associated with consuming an alternative good
- (d) consumer surplus associated with the consumption of an alternative good

(vi) When a firm is experiencing economies of scale:

- (a) the MP curve slopes upward
- (b) the LRAC curve slopes downward
- (c) diminishing returns to labor have been suspended
- (d) the MC curve slopes downward

(vii) Actual GDP may exceed potential GDP for a short period of time when:

- (a) the unemployment rate is high
- (b) plants run extra shifts that ordinarily are not scheduled.

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- (c) plants are shut down to remove old equipment and install new equipment  
(d) any or all of the above occur.
- (viii) An example of frictional unemployment is:  
(a) workers at General Motors plants laid off because of slow car sales.  
(b) steel workers laid off by plant closings.  
(c) a teenager who has quit work at McDonald's waiting to take a job next week at the car wash  
(d) Inner-city welfare mothers taking classes to earn high-school equivalency degrees.
- (ix) If inflation is expected to be 5 percent in the coming year and the nominal interest rate is 8 percent, then the real interest rate is:  
(a) -3 percent  
(b) 3 percent  
(c) 8 percent  
(d) 13 percent
- (x) Which of the following is included in GDP as currently measured?  
(a) food stamps  
(b) used car sales  
(c) additions to inventories  
(d) purchases of Ford stock
- (xi) Disposable income is:  
(a) the same as personal income  
(b) income that is used only for consumption  
(c) Personal income remaining after income taxes  
(d) exclusive of social security payments or welfare.
- (xii) The difference between GNP and GDP is:  
(a) net factor payments to foreigners  
(b) indirect business taxes paid to all levels of government  
(c) net exports of goods and services.  
(d) capital consumption allowances.
- (xiii) A country that makes large net income payments to investors in another country is likely to:  
(a) have a large GDP than GNP  
(b) have smaller GDP than GNP  
(c) grow slower economically than the other country  
(d) grow faster economically than the other country.
- (xiv) Which of the following would be the best measure of changes in the standard of living in an economy, expressed in a time series?  
(a) real GDP  
(b) output per labor hour of output  
(c) real GDP per capita  
(d) nominal GDP per capita
- (xv) An MPC of less than 1 means that an increase in current disposable income would cause

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desired consumption expenditures to:

- (a) rise by less than full increase in disposable income.
- (b) fall slightly because the increase in income will increase saving.
- (c) rise by the full increase in disposable income.
- (d) stay the same because the MPS is also less than 1.

(xvi) For money to serve as an efficient medium of exchange, it must have all but which of the following characteristics?

- (a) general acceptability
- (b) convertibility into precious metals
- (c) high value relative to its weight
- (d) divisibility

(xvii) A bond that pays interest forever and never repays the principals is called a:

- (a) perpetuity
- (b) preferred share
- (c) fixed-term bond
- (d) treasury bill

(xviii) If given the same amount of inputs, U.S farmers produce 2 tons of rice per acre while Japanese farmers produce 1 ton of rice per acre, we can be certain that:

- (a) the United States should export rice to Japan.
- (b) the United States has a comparative in rice production.
- (c) the United States has an absolute advantage in rice production.
- (d) Japanese farmers must be paid twice as much as American farmers.

(xix) The doctrine of comparative advantage says that there are gains from international trade:

- (a) only if both comparative and absolute advantage are present in both countries.
- (b) if opportunity costs are the same in the countries involved.
- (c) only there are economies of scale available.
- (d) if countries specialize in the production of goods in which they are relatively more efficient.

(xx) The terms of trade are measured by:

- (a) the quantity of imported goods that can be obtained for each unit of an exported good.
- (b) the ratio of the price of imports to the price of exports.
- (c) the value of imported goods that can be obtained for each dollar of exported goods.
- (d) all of the above.

(1) A market is in equilibrium, when:

- (a)  $AC = P$
- (b)  $MC = MR$
- (c)  $AC = AR$
- (d)  $TC = TR$
- (e) None of these

(2) Consumer's surplus occurs, when:

- (a) Personal valuation exceeds the market valuation
- (b) Market valuation exceeds the personal valuation

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- (c) Market valuation equals the personal valuation
  - (d) Market valuation equals the market price
  - (e) None of these
- (3) Livestock is:
- (a) An independent Sector
  - (b) Sub-sector of Agriculture
  - (c) Should be a part of Agriculture
  - (d) Would become a part of Agriculture
- (4) Unemployment Rate is a percentage relation with reference to:
- (a) Total Population
  - (b) Civilian Labour Force
  - (c) Employed Persons
  - (d) Unemployed Persons
  - (e) None of these
- (5) Devaluation of rupee would result into:
- (a) Expensive exports
  - (b) Expensive Imports
  - (c) Expensive Labour
  - (d) Overvalued Rupee
  - (e) None of these
- (6) Indirect Taxes are:
- (a) Direct Taxes – Subsidies
  - (b) Subsidies
  - (c) Sales Taxes
  - (d) Income Taxes
  - (e) None of these
- (7) Negative taxation refers to:
- (a) Tax Rebate
  - (b) Subsidies
  - (c) Tax Evasion
  - (d) Tax Avoidance
  - (e) None of these
- (8) Most commonly referred indicator of Inflation is:
- (a) Wholesale Price Index
  - (b) Retail Price Index
  - (c) Sensitivity Price Index
  - (d) Consumer Price Index
  - (e) None of these
- (9) If saving Rate is 12.0%, ICOR Value is 3% and Population Rate is 2.0%, then the Growth Rate would be:
- (a) 2.0%

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- (b) 3.6%
- (c) 4.0%
- (d) 6.0%
- (e) None of these

Economics Mcqs For Pcs Exams

Economics Mcqs For Lecturer & Subject Specialist Exams

(i) The best and comprehensive definition of economic development was presented by:

- (a) Higgins
- (b) Maddison
- (c) Friedman
- (d) None of these

(ii) Fishery is the sub sector of:

- (a) Agriculture
- (b) Manufacturing
- (c) Mining
- (d) Both (b) and (c)

(iii) Pakistan was the leading exporter before the separation of East Pakistan:

- (a) Cotton
- (b) Tea
- (c) Rice
- (d) None of these

(iv) Pakistan devalued its currency in 1972 by:

- (a) 131%
- (b) 121%
- (c) 100%
- (d) None of these

(v) Eighth Five Year Plan duration was:

- (a) 1983 – 1988
- (b) 1993 – 1998
- (c) 1978 – 1983
- (d) 1988 – 1993

(vi) Export Bonus Scheme (EBS) was introduced in:

- (a) 1969
- (b) 1979
- (c) 1959
- (d) 1949

(vii) Primary deficit (primary balance) is the difference between total revenue and:

- (a) Non-interest total expenditure

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- (b) Interest expenditure
- (c) development expenditure
- (d) All of these

(viii) Cooperative movement was started in sub-continent in:

- (a) 1904
- (b) 1914
- (c) 1934
- (d) None of these

(ix) The Ryotwari system was introduced by the British rules in the provinces of:

- (a) Sindh, Madras and Mumbai
- (b) Sindh, Punjab and Mumbai
- (c) Sindh, Madras and NWFP
- (d) Both (a) and (b)

(x) Pakistan Agricultural Storage and Service Corporation (PASSCO) was established in:

- (a) 1973
- (b) 1963
- (c) 1953
- (d) 1983

(xi) Who developed Physical Quality Life Index (PQLI) in his famous book named by "Measuring the Condition of the World's Poor: PQLI in 1987?"

- (a) Morris D. Morris
- (b) Higgins
- (c) Keynes
- (d) None of these

(xii) The Human Development Index (HDI) ranks all countries on the scale of:

- (a) 0 to 1
- (b) 1 to 100
- (c) -1 to +1
- (d) None of these

(xiii) The United Nations designated The Fourth World as:

- (a) Less developed countries
- (b) Poor countries
- (c) Least developed countries
- (d) All of these

(xiv) According to 'North-South Divide', the rich countries are called:

- (a) South countries
- (b) North countries
- (c) Industrialized countries
- (d) Advance countries

(xv) The loan which is given at a nominal rate of interest ranging from 1% to 3% is called:



- (a) Hard loan
- (b) Conditional loan
- (c) Soft loan
- (d) All of these

(xvi) The accumulation of a stock of debt so large as to threaten the country's ability to repay its past loan:

- (a) Debt equity swap
- (b) Debt trap
- (c) Debt overhang
- (d) None of these

(xvii) "Rabi" season which begins in:

- (a) April-June
- (b) October-December
- (c) January-February
- (d) None of these

(xviii) Government of Pakistan announced privatization policy in:

- (a) 1981
- (b) 1995
- (c) 1991
- (d) None of these

(xix) The floating debt (short-term) consists of:

- (a) Treasury Bills
- (b) Market Treasury Bills
- (c) MTBs for Replenishment
- (d) All of these

(xx) The currency of IMF is called:

- (a) SDRs
- (b) ODRs
- (c) Lira
- (d) None of these

(i) Demand curve in case of Giffen good is:

- (a) Negatively sloped
- (b) Vertical
- (c) Positively sloped
- (d) None of these

(ii) Price consumption curve in case of complementary goods is:

- (a) Downward sloping
- (b) Vertical
- (c) Upward sloping
- (d) None of these

(iii) In case of two goods, following utility approach, a consumer is in equilibrium when:

- (a)  $MU_x/P_x = MU_y/P_y$
- (b)  $MU_x/P_x < MU_y/P_y$
- (c)  $MU_x/M_x > MU_y/P_y$
- (d) Both (b) and (c)

(iv) In short run:

- (a) Labour is variable
- (b) Both labour and capital are variable
- (c) Both labour and capital fixed
- (d) None of these

(v) When MC is equal to AC, the AC:

- (a) Increases
- (b) Decreases
- (c) Remains constant
- (d) None of these

(vi) Normal profit, excess profit and loss of the firm depends on level of:

- (a) Average costs in short run
- (b) Total costs in short run
- (c) Marginal costs in short run
- (d) All of these

(vii) In case of perfect competition, the sellers are:

- (a) Two
- (b) A few
- (c) Very large
- (d) None of these

(viii) The firm is in equilibrium when:

- (a) Slope of TC = Slope of TR
- (b) Slope of TC is less than slope of TR
- (c) Slope of TC is more than slope of TR
- (d) None of these

(ix) The Marginal Revenue Product of labour MRPL is:

- (a)  $MR \times MP$
- (b)  $MR / MP$
- (c)  $MR - MP$
- (d) Both (b) and (c)

(x) In case of imperfect competition the MRPL is the:

- (a) Supply of labour curve
- (b) Demand for labour curve
- (c) Both of these
- (d) None of these

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(xi) Per Capita Income is calculated as:

- (a)  $N.I + \text{Population}$
- (b)  $N.I * \text{Population}$
- (c)  $N.I / \text{Population}$
- (d) Both (a) and (c)

(xii) Gross Domestic Product equals:

- (a)  $GNP - NFI$
- (b)  $GNP + NFI$
- (c)  $GNP - \text{indirect taxes}$
- (d) Both (a) and (c)

(xiii) The deposit multiplier is always:

- (a) Greater than one
- (b) Less than one
- (c) Equal to one
- (d) None of these

(xiv) Money can be a standard of deferred payments only if the value of money itself:

- (a) Remains stable
- (b) increases
- (c) Decreases
- (d) None of these

(xv) The fiscal policy with a deliberate policy action is:

- (a) Expansionary fiscal policy
- (b) Concretionary fiscal policy
- (c) Discretionary fiscal policy
- (d) All of these

(xvi) Trade based on absolute advantage was presented by:

- (a) Alfred Marshall
- (b) Adam Smith
- (c) Lionel Robbins
- (d) None of these

(xvii) According to Keynes, the relationship between money supply and rate of interest is:

- (a) Negative
- (b) Positive
- (c) Indirect
- (d) None of these

(xviii) An object that is generally accepted in exchange for goods and services is called:

- (a) Standardized money
- (b) Medium of exchange
- (c) Unit of account
- (d) All of these

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(xix) The account in balance of payment that consists of all transactions in financial assets is known as:

- (a) Capital account
- (b) Current account
- (c) Official Reserve account
- (d) None of these

(xx) The difference between exports and imports of visible items of a country is called:

- (a) Budget surplus
- (b) Balanced budget
- (c) Balance of trade
- (d) Both (a) and (c)

### Economics Mcqs Paper For BPS 17

(i) The best measure of economic development is:

- (a) GNP
- (b) HDI
- (c) PQLI
- (d) None of these

(ii) Due to land reforms of 1972 the number of farmers benefited were around:

- (a) 50,300
- (b) 71,500
- (c) 81,201
- (d) 40,301

(iii) The best measure of economic development, among the following is:

- (a) Life expectancy
- (b) Industrial development
- (c) Agricultural and industrial development
- (d) Development of services sector

(iv) As per 1990 census, the number of tenants in Pakistan were around:

- (a) 16%
- (b) 20%
- (c) 25%
- (d) 13%
- (e) None of these

(v) Area irrigated by different sources in Pakistan is around \_\_\_\_\_ Million hectares:

- (a) 17
- (b) 20
- (c) 15
- (d) 18

(vi) Which era (decade) in Pakistan is called “the decade lose”:

- (a) 1960's

- (b) 1970's
- (c) 1980's
- (d) 1990's
- (e) 2000's

(vii) The urban employment in the informal industry is:

- (a) 72%
- (b) 50%
- (c) 30%
- (d) 79%
- (e) 60.5%

(viii) The effective tariff rate in Pakistan (Foreign Sector) is:

- (a) Below 10%
- (b) Around 15%
- (c) Around 20%
- (d) Around 23%

(ix) The major objective of Monetary Authorities is:

- (a) To control inflation and help the government
- (b) Stability of the economy
- (c) To reduce unemployment and print money
- (d) To control interest rate and promote investment
- (e) None of these

(x) Out of total revenue of Pakistan, the following percentage is spent on defence and debt services:

- (a) 50%
- (b) 30%
- (c) 90%
- (d) 80%
- (e) 70%

(xi) Under WTO, Pakistan has bounded tariff for agriculture around:

- (a) 100%
- (b) 50%
- (c) 150%
- (d) None of these

(xii) The best technique to measure competitiveness of trade is:

- (a) Absolute advantage
- (b) Comparative advantage
- (c) Revealed comparative advantage
- (d) Openness of the foreign sector

(xiii) The agricultural share in GDP is around:

- (a) 22%
- (b) 20%

- (c) 15%
- (d) 10%

(xiv) Structural adjustment program in Pakistan led to:

- (a) Increase poverty
- (b) Reduce poverty
- (c) Improve the economy
- (d) No significant impact

(xv) The IMF loans are:

- (a) For short term
- (b) For long term
- (c) Both (a) and (b)
- (d) None of these

(xvi) Indirect taxes are around \_\_\_\_\_ of the revenue.

- (a) 70%
- (b) 80%
- (c) 85%
- (d) None of these

(xvii) In the last ten years, foreign debt servicing of Pakistan has:

- (a) Increased
- (b) Decreased
- (c) Remained the same

(xviii) With the introduction of reforms in the foreign sector Pakistan's competitiveness has:

- (a) Improved
- (b) Deteriorated
- (c) Improved and deteriorated
- (d) Deteriorated and improved

(xix) The industrial share in the GDP is around:

- (a) 20%
- (b) 18%
- (c) 22%
- (d) 15%

(xx) Produce Index Unit is:

- (a) Per acre total production in a year
- (b) Per acre production of one crop in one acre
- (c) Aggregate average production per acre
- (d) None of these

(i) Price effect is a combination of:

- (a) Income effect and policy effect
- (b) Income substitution, income and welfare effect
- (c) Substitution effect plus market effect

(d) All of these

(ii) Which of the following is true in long run equilibrium for a firm in monopolistic competition?

(a)  $MC = ATC$

(b)  $MC > ATC$

(c)  $MC \leq ATC$

(d) None of these

(iii) To represent the whole economy there are:

(a) Four markets

(b) Three markets

(c) Two markets

(d) None of these

(iv) The long run average cost curve is:

(a) U-shaped

(b) J-shaped

(c) Hyperbola shape

(d) Both (a) and (b)

(e) None of these

(v) Demand curve in monopolistic competition is:

(a) Relatively flatter than monopoly

(b) Relatively steeper than monopoly

(c) Negatively sloped and same as monopoly

(d) None of these

(vi) The relation between labour units employed and wage rate is shown by:

(a) Value of marginal product of labour [VMP1]

(b) Value of average product of labour [VAP1]

(c) Negatively sloped marginal productivity curve

(d) Both (b) and (c)

(vii) A market with few entry barriers and with many firms that sell differentiated products is:

(a) Purely competitive

(b) Monopoly

(c) Monopolistically competitive

(d) Oligopolistic Competition

(viii) The firm's profit will be maximum when its:

(a) Marginal cost is greater than marginal revenue

(b) Marginal revenue is greater than marginal cost

(c) Marginal cost is equal to marginal revenue

(d) Both (a) and (b)

(ix) General equilibrium represents:

(a) Equilibrium of the goods and money market

(b) Equilibrium of the goods market

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- (c) Equilibrium of the goods, money and labour market
- (d) None of these

(x) Net exports are always:

- (a) Positive
- (b) Negative
- (c) Balance
- (d) None of these

(xi) When Slope of the Aggregate Expenditure Curve increases; (Keynesian Cross model)

- (a) National Income will increase
- (b) National Income will decrease
- (c) There will be recessionary gap
- (d) There will be inflationary gap
- (e) None of these

(xii) GNP of a country is:

- (a) GDP divided by prices
- (b) GNP – GDP
- (c) GNP – Depreciation
- (d) None of these

(xiii) Money is:

- (a) Currency and Coins
- (b) Credit cards and drafts
- (c) Bonds
- (d) Promissory notes
- (e) None of these

(xiv) Keep in mind Production Possibility Frontier (PPF):

- (a) All the points on the PPF could be efficient points
- (b) Production may be chosen inside PPF which will be efficient
- (c) Production out side the PPF is efficient
- (d) None of these

(xv) The investment demand curve is always:

- (a) Negatively sloped
- (b) Positively sloped
- (c) Vertical
- (d) Horizontal

(xvi) Real interest rate is:

- (a) Interest rate divided by prices
- (b) Interest rate divided by inflation
- (c) Interest rate minus inflation
- (d) Interest rate plus inflation

(xvii) The consumer will be in equilibrium where:



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- (a) Budget line intersect indifference curve
- (b) Budget line intersect price line
- (c) Both (a) and (b)
- (d) None of these

(xviii) When there is Liquidity Trap:

- (a) Money demand increases interest rate
- (b) Money demand decreases interest rate
- (c) Money demand curve is vertical
- (d) All of these
- (e) None of these

(xix) Due to change in price aggregate demand curve will:

- (a) Shift to the left
- (b) Shift to the right
- (c) None of (a) and (b)
- (d) Become flatter

(xx) Derived demand is:

- (a) Like demand for shoe maker
- (b) Like teacher / tutor
- (c) Like craftsman
- (d) All of these
- (e) None of these

### INTRODUCTION TO MACROECONOMICS AND THE DIFFERENT SCHOOLS OF THOUGHT

1 A study of how increases in the minimum wage rate will affect the national unemployment rate is an example of

- A. descriptive economics.
- B. normative economics.
- C. macroeconomics.
- D. microeconomics.

2 Aggregate supply is the total amount

- A. of goods and services produced in an economy.
- B. produced by the government.
- C. of products produced by a given industry.
- D. of labour supplied by all households.

3 The total demand for goods and services in an economy is known as

- A. aggregate demand.
- B. national demand.
- C. gross national product.
- D. economy-wide demand.

4 Deflation is

- A. an increase in the overall level of economic activity.

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- B. an increase in the overall price level.
- C. a decrease in the overall level of economic activity.
- D. a decrease in the overall price level.

5 A recession is

- A. a period of declining prices.
- B. a period during which aggregate output declines.
- C. a period of declining unemployment.
- D. a period of falling trade volumes.

6 Involuntary unemployment means that

- A. people are not willing to work at the going wage rate.
- B. at the going wage rate, there are people who want to work but cannot find work.
- C. there are some people who will not work at the going wage rate.
- D. there is excess demand in the labour market.

7 A cut in the income tax rate designed to encourage household consumption is an example of

- A. expansionary demand-side policy.
- B. contractionary demand-side policy.
- C. expansionary supply-side policy.
- D. contractionary supply-side policy.

8 A cut in the tax rate designed to reduce the cost of capital and hence encourage business investment is an example of

- A. expansionary demand-side policy.
- B. contractionary demand-side policy.
- C. expansionary supply-side policy.
- D. contractionary supply-side policy.

9 Macroeconomics is the branch of economics that deals with

- A. the economy as a whole.
- B. imperfectly competitive markets.
- C. only the long run adjustments to equilibrium in the economy.
- D. the functioning of individual industries and the behaviour of individual decision-making units – business firms and households.

10 A group of modern economists who believe that price and wage rigidities do not provide the only rationale for macroeconomic policy activism are called:

- A. New-Keynesians.
- B. Keynesians.
- C. Monetarists.
- D. The Classical school.

11 Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of

- A. economic theory to explain the simultaneous increases in inflation and unemployment during the 1970s.
- B. fine tuning during the 1960s.

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- C. the economy to grow at a rapid rate during the 1950s.
- D. the Classical model to explain the prolonged existence of high unemployment during the Great Depression.

12 Keynes believed falling wages were not a solution to persistent unemployment because

- A. falling wages demoralised workers.
- B. this would reduce the purchasing power of labourers as consumers. This in turn would weaken firms' prospects of selling more goods, hence inducing them to cut their investment (and hence labour) demand.
- C. the unemployment was caused by frictional and structural factors.
- D. wages would fall more than required to clear the labour market.

13 The practice of using fiscal and monetary policy to stabilise the economy is known as

- A. fine tuning of demand
- B. monetarism
- C. laissez faire economics
- D. supply side economics

14 According to Classical models, the level of employment is determined primarily by

- A. interest rates.
- B. the level of prices.
- C. the level of aggregate supply in the economy
- D. the level of aggregate demand for goods and services.

15 According to Keynes, the level of employment is determined by

- A. interest rates.
- B. the level of prices.
- C. the level of aggregate supply in the economy
- D. the level of aggregate demand for goods and services.

16 According to the Classical model, unemployment

- A. could not persist because wages would fall to eliminate the excess supply of labour.
- B. could persist for long periods of time because wages are not flexible.
- C. could be eliminated only through government intervention.
- D. could never exist.

17 To get the economy out of a slump, Keynes believed that the government should

- A. increase both taxes and government spending.
- B. increase taxes and/or decrease government spending.
- C. cut both taxes and government spending.
- D. decrease taxes and/or increase government spending.

18 Aggregate demand refers to the total demand for all domestically produced goods and services in an economy generated from

- A. the household and government sectors.
- B. the household sector.
- C. all sectors except the rest of the world.
- D. all sectors including the rest of the world.

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19 Government policies that focus on increasing production rather than demand are called:

- A. fiscal policies.
- B. monetary policies.
- C. incomes policies.
- D. supply-side policies.

20 Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are

- A. market prices.
- B. sticky prices.
- C. fixed prices.
- D. regulatory prices.

21 The economists who emphasised wage-flexibility as a solution for unemployment were

- A. Monetarists.
- B. New-Keynesians.
- C. Classical economists.
- D. Keynesians.

22 According to the Classical economists, the economy

- A. requires fine tuning to reach full employment.
- B. should not be left to market forces.
- C. will never be at full employment.
- D. is self correcting.

23 Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain

- A. stagflation in the late 1970s.
- B. demand-pull inflation in the 1960s.
- C. low growth rates in the 1950s.
- D. the prolonged existence of high unemployment during the Great Depression.

24 Keynes' explanation for low firm investment during the Great Depression was

- A. low savings, which placed a constraint on investment
- B. high real borrowing rates, which discouraged firm borrowing
- C. high savings, which left consumers with less money to spend on goods and services produced by firms
- D. A permanent change in Europe's corporate ownership structures.

25 Rapid increases in the price level during periods of recession or high unemployment are known as

- A. slump.
- B. stagnation.
- C. stagflation.
- D. inflation.

26 The hypothesis that people know the 'true model' of the economy and that they use this

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model and all available information to form their expectations of the future is the

- A. rational-expectations hypothesis.
- B. active-expectations hypothesis.
- C. static-expectations hypothesis.
- D. adaptive-expectations hypothesis.

27 Neo-Classical theories were an attempt to explain

- A. how unemployment could have persisted for so long during the Great Depression.
- B. the stagflation of the 1970s.
- C. why policy changes that are perceived as permanent have more of an impact on a person's behaviour than policy changes that are viewed as temporary.
- D. the increase in the growth rate of real output in the 1950s.

28 A group of modern economists who believe that markets clear very rapidly and that expanding the money supply will always increase prices rather than employment are the

- A. New-Keynesians.
- B. Keynesians.
- C. Monetarists.
- D. The Classical school.

29 Say's law states that:

- A. Supply creates its own demand.
- B. Demand creates its own supply.
- C. There is no such things as a free lunch
- D. Macroeconomic policy activism is essential to ensure full-employment.

30 The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:

- A. AS: fully horizontal; AD: downward sloping
- B. AS: horizontal only till the full capacity level; AD: downward sloping
- C. AS: vertical; AD: upward sloping
- D. AS: horizontal; AD: vertical

### MACROECONOMIC DATA AND VARIABLES, NATIONAL INCOME ACCOUNTING AND EQUILIBRIUM IN A KEYNESIAN ECONOMY

Questions 1-3 are based on the following information about an economy:

Consumer price index (2002) = 132

Consumer price index (2001) = 110

Nominal GDP (2002) = \$60bn

Nominal GDP (2001) = \$50bn

Population (2002) = 7mn

Population (2001) = 6mn

Net factor income from abroad (2002) = +\$3bn

Net factor income from abroad (2001) = -\$2bn

1. By how much has real GDP grown from 2001 to 2002?

- A. -10%
  - B. 12.5%
  - C. 20%
  - D. 0%
2. By how much has per capita nominal GNP changed from 2001 to 2002?
- A. -10%
  - B. 12.5%
  - C. 20%
  - D. 0%
3. Based on the above information, we can say that:
- A. Poverty has fallen in the country
  - B. Per capita real GDP is falling
  - C. Income inequality has worsened
  - D. Real growth in the informal sector is 0%
4. In the circular flow of income, Keynesian equilibrium obtains when
- A. All the individual sectors are in equilibrium:  $S=I$ ,  $T=G$ ,  $M=X$
  - B. The aggregate injections equal aggregate withdrawals  $S+T+M = I+G+X$
  - C. There is no inflation or unemployment
  - D. The interest rate and exchange rate are at their market clearing levels
5. Under conditions of Keynesian equilibrium:
- A. aggregate demand equals aggregate supply
  - B. aggregate demand equals national income
  - C. both A and B
  - D. none of the above
6. Which of the following is a determinant of consumption
- A. expectations about future prices
  - B. level of indebtedness of consumers
  - C. the price level
  - D. all of the above
7. Which is the most volatile component of aggregate demand
- A. Net exports
  - B. consumption
  - C. investment
  - D. government spending
8. Which of the following is not an obvious or direct determinant of a country's imports
- A. real exchange rate
  - B. income
  - C. tariff rates
  - D. interest rate
9. When consumption is 650, income is 750; when consumption is 620, income is 700. Assuming

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there is no government,  $I=100$ , net exports are 10, what is the level of equilibrium income?

- A. 500
- B. 625
- C. 775
- D. 850

10. Which of the following is not true?

- A. Starting from no growth, a positive output growth rate would be associated with even higher rates of investment (the accelerator effect)
- B. Higher investment causes a multiplied increase in income
- C. Such increases in income would continue to induce higher investment, which in turn would continue to cause multiplied increases in output.
- D. All of the above.

11. In the equation  $C = a + bY$ , which describes the aggregate consumption function, 'a' stands for

- A. the amount of consumption when income is zero.
- B. the marginal propensity to consume.
- C. the amount of consumption when income is Maximum.
- D. the average consumption level.

12. Total consumption divided by total income gives us:

- A. the average propensity to consume.
- B. the marginal propensity to save.
- C. the marginal propensity of expenditure.
- D. the marginal propensity to consume.

13 Disposable income is the part of households' income left after the deduction of

- A. pension contributions.
- B. income tax and social security payments.
- C. income tax.
- D. savings.

14. As the MPS increases, the multiplier will

- A. increase.
- B. either increase or decrease depending on the size of the change in investment.
- C. remain constant.
- D. decrease.

15. In macroeconomics, equilibrium is defined as that point at which

- A. planned aggregate expenditure equals aggregate output.
- B. planned aggregate expenditure equals consumption.
- C. aggregate output equals consumption minus investment.
- D. saving equals consumption.

16. The ratio of the change in the equilibrium level of output to a change in some autonomous

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component of aggregate demand is the

- A. elasticity coefficient.
- B. multiplier.
- C. marginal propensity of the autonomous variable.
- D. automatic stabiliser.

17. Assuming there are no taxes (and no foreign sector), if the MPC is .8, the multiplier is

- A. 2.5.
- B. 8.
- C. 5.
- D. 2.

18. Assuming the net income tax rate is 25% (and there is no foreign sector), if the MPC is 0.8, the multiplier is

- A. 2.5.
- B. 8.
- C. 5.
- D. 2.

19. Assuming there is no foreign sector, if the multiplier is 3, and the net income tax rate is 20%, the MPC is

- A.  $\frac{3}{4}$
- B.  $\frac{4}{5}$
- C.  $\frac{5}{6}$
- D.  $\frac{6}{7}$

20. Assume there is no government or foreign sector. If the MPC is .75, a Rs.20 billion decrease in planned investment will cause aggregate output to decrease by

- A. Rs. 80 billion.
- B. Rs. 20 billion.
- C. Rs. 26.67 billion.
- D. Rs. 15 billion.

21. According to the 'paradox of thrift,' increased efforts to save will cause

- A. an increase in income and an increase in overall saving.
- B. a decrease in income and an overall decrease in saving.
- C. a decrease in income but an increase in saving.
- D. an increase in income but no overall change in saving.

22. If injections are less than withdrawals at the full-employment level of national income, there is

- A. an inflationary gap.
- B. equilibrium.
- C. a deflationary gap.
- D. hyperinflation.

23. The accelerator theory of investment says that induced investment is determined by

- A. the rate of change of national income.



- B. expectations.
- C. the level of national income.
- D. the level of aggregate demand.

24. The diagram that shows the money received and paid out by each sector of the economy is the

- A. income-price diagram.
- B. income-expenditures diagram.
- C. circular flow diagram.
- D. aggregate demand-aggregate supply diagram.

### THE BIG FOUR: UNEMPLOYMENT, INFLATION, BALANCE OF PAYMENTS AND GROWTH

#### UNEMPLOYMENT

1. If both the no. of unemployed people and the size of the labour force increase by 10,000, then
- A. the unemployment rate will remain the same.
  - B. the unemployment rate will increase.
  - C. the unemployment rate will decrease.
  - D. we cannot tell.

2. Which of the following could be a reason for the problem of “lack of jobs” being overestimated:

- A. the existence of disguised unemployment
- B. people are underemployment
- C. people holding only one job (as opposed to multiple jobs)
- D. the existence of child labour

3. Which of the following is not a cost of voluntary unemployment?

- A. potential output of the economy is greater than actual output
- B. government loses tax revenue
- C. firms lose (potential) revenues due to operating below capacity
- D. mental stress undergone by the unemployed persons

4. “Because higher wages are less likely to induce people who are structurally or physically unable to participate on the labour force. On the other hand people already on the labour force are more likely to respond to higher wages by accepting jobs.”

The above statement is an answer to which question?

- A. Why is the AJ curve more elastic than the LF curve
- B. Why is the LF curve not totally vertical
- C. Why is the AJ curve not completely vertical
- D. Why is it difficult to completely remove the horizontal distance between the AJ and LF curves

5. Which of the following would constitute sound government policy if you subscribed to the

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Monetarist view on unemployment?

- A. increase aggregate demand through monetary or fiscal policy
- B. reduce the obstacles to downward wage rigidity (like unions, unemployment benefits, minimum wage legislations etc.)
- C. Reduce the marginal income tax rate (to increase the incentive to work)
- D. All of the the above

6. The persistence of a phenomenon, such as unemployment, even when its causes have been removed is called

- A. The paradox of thrift.
- B. hysteresis.
- C. structural unemployment.
- D. ceteris paribus.

7. Cyclical unemployment is the

- A. portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
- B. unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.
- C. portion of unemployment that is due to seasonal factors.
- D. unemployment that occurs during recessions and depressions.

8. The natural rate of unemployment is generally thought of as the

- A. ratio of the frictional unemployment rate to the cyclical unemployment rate.
- B. sum of frictional unemployment and cyclical unemployment.
- C. sum of frictional unemployment and structural unemployment.
- D. sum of structural unemployment and cyclical unemployment.

9. One of the tenets of the Classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur

- A. slowly.
- B. instantly.
- C. very infrequently.
- D. very quickly.

10. According to Keynesian economists, those who are not working

- A. have given up looking for a job, but would accept a job at the current wage if one were offered to them.
- B. are too productive to be hired at the current wage.
- C. have chosen not to work at the market wage.
- D. are unable to find a job at the current wage rate.

### INFLATION

11. The index used most often to measure inflation is the

- A. consumer price index.
- B. wholesale price index.

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- C. student price index.
- D. producer price index.

12. If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?

- A. No. Because you would still be able to sell your goods at the higher price.
- B. Yes. Because the cost of your input is growing faster than the revenue obtained from your output
- C. Yes. Because both price and wage inflation are bad.
- D. No. Because any loss to the firm will be offset by the gain to the workers.

13. Which of the following is not a major cost of inflation:

- A. Resource wastage: as people spend time and money to guard against the “purchasing power erosion” effects of inflation, while firms suffer menu costs (i.e. the costs of frequently issuing “revised” price lists).
- B. Uncertainty: firms defer investment when inflation is high and volatile as the latter complicates predicting future cashflows.
- C. Worsened income inequality: inflation is a regressive tax on the people that does not take into account the taxpayers’ “ability to pay”. As such, there is a redistribution of wealth from the poor to the rich.
- D. Money printing costs: inflation requires more currency notes to be printed and this raises the government’s printing costs.

14. In the long run, the Phillips curve will be vertical at the natural rate of unemployment if

- A. the long-run supply curve is horizontal at the natural rate of inflation.
- B. the long-run aggregate demand curve is vertical at potential GDP.
- C. the long-run aggregate demand curve is horizontal at the natural rate of inflation.
- D. the long-run aggregate supply curve is vertical at potential GDP.

15. According to the monetarists, the measured unemployment rate can

- A. be reduced below the natural rate only in the short run, and not without inflation.
- B. be reduced below the natural rate only in the long run, and only if the price level is constant.
- C. be reduced below the natural rate only in the short run, and only if the price level is constant.
- D. be reduced below the natural rate only in the long run, and not without inflation.

16. If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?

- A. No, because cost-push inflation is caused by an increase in the cost of only one input.
- B. Yes, because that is exactly the definition of cost-push inflation.
- C. No, because such a situation can also be caused by particular demand pressures in the economy.
- D. Yes, because this is exactly what happens in stagflation.

17. The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause

- A. an equal percentage change in nominal GDP.

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- B. a larger percentage change in nominal GDP.
- C. an equal percentage change in real GDP.
- D. a smaller percentage change in nominal GDP.

18. If input prices adjusted very slowly to output prices, the Phillips curve would be

- A. downward sloping.
- B. vertical or nearly vertical.
- C. upward sloping.
- D. horizontal or nearly horizontal.

19. If inflationary expectations increase, the short-run Phillips curve will

- A. become vertical.
- B. become upward sloping.
- C. shift to the right.
- D. shift to the left.

### BALANCE OF PAYMENTS

20. The record of a country's transactions in goods, services, and assets with the rest of the world is its \_\_\_\_\_; while the difference between a country's merchandise exports and its merchandise imports is the \_\_\_\_\_.

- A. current account; trade balance.
- B. capital account; balance of payments.
- C. balance of trade; capital account.
- D. balance of payments; balance of trade.

21. Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?

- A. If the capital account is in surplus, then the current account is likely to be in deficit.
- B. If the current account is in deficit, then the capital account is likely to be in surplus.
- C. If the current account is in balance, the capital account is also likely to be in balance.
- D. None of the above.

22. Which of the following statements is necessarily TRUE?

- A. A country runs a current account deficit if it imports more goods and services than it exports.
- B. The sum of the current and capital accounts must be zero.
- C. If both the current and capital accounts are in surplus, the exchange rate must appreciate.
- D. None of the above.

23. All currencies other than the domestic currency of a given country are referred to as

- A. reserve currencies.
- B. near monies.
- C. foreign exchange.
- D. hard currency.

24. Exchange rates that are determined by the unregulated forces of supply and demand are

- A. floating exchange rates.
- B. pegged exchange rates.

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- C. fixed exchange rates.
- D. managed exchange rates.

25. If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because

- A. as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.
- B. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.
- C. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.
- D. as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.

26. The fall (rise) in value of one currency relative to another is

- A. a floating (fixing) of the currency.
- B. an appreciation (depreciation) of a currency.
- C. a depreciation (appreciation) of a currency.
- D. a strengthening (weakening) of a currency.

27. If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:

- A. 1.
- B. constantly changing.
- C. relatively stable, but not constant
- D. none of the above

28. The interest parity equation implies that there is a general tendency for:

- A. exchange rates to be insensitive to the differential rates of interest between countries.
- B. the currencies of relatively low-interest countries to appreciate.
- C. the currencies of relatively high-interest countries to appreciate.
- D. the currencies of relatively low-interest countries to depreciate.

Note that currencies with low rates of interest also typically have low inflation rates. This follows from the Fischer equation which maintains that the nominal interest rate = real interest rate + expected inflation.

29. Which of the following is (are) correct statement(s) about the current account deficit?

- A. A current account deficit is bad, if it is being caused by excessive consumer spending
- B. A current account deficit is bad, if it is fuelled by high fiscal deficits
- C. A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings
- D. All of the above

30. The J-curve effect refers to the observation that

- A. GDP usually decreases before it increases after a currency depreciation.
- B. GDP usually decreases before it increases after a currency appreciation.

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- C. the trade balance usually gets worse before it improves after a currency appreciation.
- D. the trade balance usually gets worse before it improves after a currency depreciation.

31. If Japan exports more direct investment capital abroad than expected, then the yen will tend to

- A. appreciate.
- B. fluctuate more than if exports were lower.
- C. depreciate.
- D. not be affected.

32. Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, *ceteris paribus*, what will happen by the end of today to the Rs./dollar exchange rate? It will:

- A. Rise by more than 10%.
- B. Rise by exactly 10%.
- C. Fall by less than 10%.
- D. Remain constant.

Hint: Use your common sense. Think of “yourself” as a currency trader and then answer the question, based on your future expectation and the incentive it creates.

### GROWTH

33. According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?

- A. an increase in the size of the labour force.
- B. an increase in the productivity of capital.
- C. a move to more capital intensive production methods
- D. discovery of a major mineral resource in the country

34. When referring to economic growth, we normally refer to:

- A. growth in actual real per capita output
- B. growth in potential real per capita output
- C. growth in actual nominal per capita output
- D. growth in potential real per capita output

35. A variable whose value is determined by the model of which it is a part is termed \_\_\_\_\_.

- A. endogenous
- B. exogenous
- C. independent
- D. constant

36. An example of capital deepening, given an increasing L, would be:

- A. K increases so as to maintain a constant K/L
- B. K increases so much that K/L increases

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- C. K remains constant so that  $L/K$  increases
- D. K falls, so as to reduce  $K/L$

37. The neo-classical growth model says that:

- A. poor countries should catch-up (or converge to) with richer countries
- B. higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate
- C. the steady state growth rate of real output depends on the sum of the (exogenous) growth rates in population and technical progress.
- D. All of the above.

### RELATIONSHIPS BETWEEN THE BIG FOUR

38. The length of a business cycle would be measured from

- A. peak to trough.
- B. trough to peak.
- C. peak to peak.
- D. the slump to the expansion.

39. If the economy is in the expansionary phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.

- A. rising; falling; rising; deficit
- B. static; low; rising; deficit
- C. falling; falling; falling; surplus
- D. falling; rising; falling; surplus

40. If the economy is at the peak of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.

- A. rising; falling; rising; deficit
- B. static; low; rising; deficit
- C. falling; falling; falling; surplus
- D. falling; rising; falling; surplus

41. If the economy is approaching the trough phase of the business cycle, aggregate demand is likely to be \_\_\_\_\_, unemployment is likely to be \_\_\_\_\_, inflation is likely to be \_\_\_\_\_, and the current account of the balance of payments is likely to be moving towards \_\_\_\_\_.

- A. rising; falling; rising; deficit
- B. static; low; rising; deficit
- C. falling; falling; falling; surplus
- D. falling; rising; falling; surplus

42. Which of the following is not true regarding the effects of growth on the balance of payments and vice versa?

- A. Generally, growth raises incomes which will translate into higher consumption and higher imports, causing the current account of the BOPs to deteriorate.

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- B. If growth is “export-led”, it will boost the current account surplus of the BOPs.
- C. If the current account deficit reflects an underlying private sector resource deficit, it is likely to be bad for future growth.
- D. If the current account reflects rising imports of military equipment by the government, it might not be beneficial for economic growth.

43. A country has high inflation and is running a current account deficit. What should it do in the context of the Salter-Swan diagram?

- A. Reduce government spending and revalue the exchange rate
- B. Increase government spending and devalue the exchange rate
- C. Reduce the money supply and devalue the exchange rate
- D. Increase government spending and revalue the exchange rate

Economics Mcqs For Subject Specialist & Lecturer Pcs Exams

### POSTS RELATED TO YOUR SEARCH

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

(i) Price effect is a combination of:

- (a) Income effect and policy effect
- (b) Income substitution, income and welfare effect
- (c) Substitution effect plus market effect
- (d) All of these

(ii) Which of the following is true in long run equilibrium for a firm in monopolistic competition?

- (a)  $MC = ATC$
- (b)  $MC > ATC$
- (c)  $MC \leq ATC$
- (d) None of these

(iii) To represent the whole economy there are:

- (a) Four markets
- (b) Three markets
- (c) Two markets
- (d) None of these

(iv) The long run average cost curve is:

- (a) U-shaped
- (b) J-shaped
- (c) Hyperbola shape
- (d) Both (a) and (b)
- (e) None of these

(v) Demand curve in monopolistic competition is:

- (a) Relatively flatter than monopoly



- (b) Relatively steeper than monopoly
  - (c) Negatively sloped and same as monopoly
  - (d) None of these
- (vi) The relation between labour units employed and wage rate is shown by:
- (a) Value of marginal product of labour [VMP1]
  - (b) Value of average product of labour [VAP1]
  - (c) Negatively sloped marginal productivity curve
  - (d) Both (b) and (c)
- (vii) A market with few entry barriers and with many firms that sell differentiated products is:
- (a) Purely competitive
  - (b) Monopoly
  - (c) Monopolistically competitive
  - (d) Oligopolistic Competition
- (viii) The firm's profit will be maximum when its:
- (a) Marginal cost is greater than marginal revenue
  - (b) Marginal revenue is greater than marginal cost
  - (c) Marginal cost is equal to marginal revenue
  - (d) Both (a) and (b)
- (ix) General equilibrium represents:
- (a) Equilibrium of the goods and money market
  - (b) Equilibrium of the goods market
  - (c) Equilibrium of the goods, money and labour market
  - (d) None of these
- (x) Net exports are always:
- (a) Positive
  - (b) Negative
  - (c) Balance
  - (d) None of these
- (xi) When Slope of the Aggregate Expenditure Curve increases; (Keynesian Cross model)
- (a) National Income will increase
  - (b) National Income will decrease
  - (c) There will be recessionary gap
  - (d) There will be inflationary gap
  - (e) None of these
- (xii) GNP of a country is:
- (a) GDP divided by prices
  - (b)  $GNP - GDP$
  - (c)  $GNP - Depreciation$
  - (d) None of these
- (xiii) Money is:

- (a) Currency and Coins
- (b) Credit cards and drafts
- (c) Bonds
- (d) Promissory notes
- (e) None of these

(xiv) Keep in mind Production Possibility Frontier (PPF):

- (a) All the points on the PPF could be efficient points
- (b) Production may be chosen inside PPF which will be efficient
- (c) Production out side the PPF is efficient
- (d) None of these

(xv) The investment demand curve is always:

- (a) Negatively sloped
- (b) Positively sloped
- (c) Vertical
- (d) Horizontal

(xvi) Real interest rate is:

- (a) Interest rate divided by prices
- (b) Interest rate divided by inflation
- (c) Interest rate minus inflation
- (d) Interest rate plus inflation

(xvii) The consumer will be in equilibrium where:

- (a) Budget line intersect indifference curve
- (b) Budget line intersect price line
- (c) Both (a) and (b)
- (d) None of these

(xviii) When there is Liquidity Trap:

- (a) Money demand increases interest rate
- (b) Money demand decreases interest rate
- (c) Money demand curve is vertical
- (d) All of these
- (e) None of these

(xix) Due to change in price aggregate demand curve will:

- (a) Shift to the left
- (b) Shift to the right
- (c) None of (a) and (b)
- (d) Become flatter

(xx) Derived demand is:

- (a) Like demand for shoe maker
- (b) Like teacher / tutor
- (c) Like craftsman
- (d) All of these

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(e) None of these

1) The greatest requirement for economic development is:

- (a) To sacrifice present enjoyment for tomorrow's benefit.
- (b) Increase in National income.
- (c) Invention and innovation in all productive sectors
- (d) Mechanization of agriculture

(2) Per Capita output would probably rise but output per worker would fall if;

- (a) Capital deepening occurred rapidly.
- (b) Labour force participation rate of the population rose
- (c) Technical education of the work
- (d) Involuntary saving was increased

(3) Most of underdeveloped countries are agricultural with low income and needs:

- (a) Increase in income of the people depends upon agriculture output.
- (b) Land can be owned collectively.
- (c) Land can be owned by large capitalist farmers.
- (d) Land can be owned by labourers who till it.

(4) Voluntary saving will most likely increase if:

- (a) Tax rates are increased
- (b) Interest rate rise
- (c) Distribution of income becomes more unequal
- (d) The rate of inflation increase

(5) Economic growth:

- (a) Is synonymous with economic development
- (b) Refers to qualitative change experienced by an economic system
- (c) When an economic system acquires greater productive capacity.
- (d) Always result in increased real per capita output

(6) Capital deepening:

- (a) Is an increase in the ratio of labour to capital
- (b) Necessarily increases real per capita output
- (c) Is less likely to be effective in fostering growth in rich countries than in poor countries
- (d) Can occur when saving rates are zero

(7) Interest of the developed world in the development of under developed economies on:

- (a) General political freedom and promotion of free societies
- (b) If world is not free their freedom would be in danger
- (c) They want to stop and check tyranny and aggression
- (d) Developed countries need customers for their surplus production.

(8) GNP at factor cost may be best defined as:

- (a) The total of goods and services produced within an economy over a given time period.
- (b) The total of expenditure of consumers on domestically produced goods and services.
- (c) All incomes received by residents in a country in return for factor services provided domestically and abroad.
- (d) The value of total output produced domestically plus net property income from abroad minus capital consumption

(9) Which one of the following is a transfer payment in National income accounting?

- (a) Educational scholarship
- (b) Salaries of employees

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- (c) Payments for text books
- (d) Payment for examination fee
- (10) Which is the basic concept which underlies accelerator theory of investment?
  - (a) Investment depends on the level of savings
  - (b) Investment is inversely related to the rate of interest
  - (c) Investment is determined by the volume of Commercial Bank Lending
  - (d) Investment rises when there is an increase in the rate of growth of demand in the economy
- (11) Which one of the following would cause a fall in the level of aggregate demand in the economy?
  - (a) A decrease in the level of imports
  - (b) A fall in the propensity to save
  - (c) A decrease in government expenditure
  - (d) A decrease in the level of income tax
- (12) Capital formation remained very low in Pakistan due to:
  - (a) Low saving rate
  - (b) Savings are not fully invested
  - (c) Money and capital market are not suitable
  - (d) Due to high rate of inflation purchasing power is very low
- (13) Efficient allocation of resources in an economy occurs whenever:
  - (a) Prices is equated to Marginal social cost in some units
  - (b) Income and wealth are distributed in a fair way
  - (c) There is full employment of resources
  - (d) The existing resource allocation cannot be changed without making it worse off.
- (14) When a worker earns more than the just sufficient to keep him in his job, the excess income is called:
  - (a) An opportunity cost
  - (b) An economic rent
  - (c) Transfer earnings
  - (d) Surplus value
- (15) There are 5 workers in a field and each one is paid at the rate of Rs. 200 per day. Later on raising wage rate by Rs. 50 per day to attract one more worker. If other costs remain constant, marginal input cost of employing the additional worker is:
  - (a) Rs. 400
  - (b) Rs. 45
  - (c) Rs. 700
  - (d) Rs. 300
- (16) If state wishes to stimulate consumption, which one of the following measures be the most effective?
  - (a) Increase in aid to agriculture and industry
  - (b) An increase in old age pension
  - (c) A decrease in higher rates of income tax
  - (d) A decrease in personal tax allowances
- (17) The incidence of tax refers to:
  - (a) Who economically bear the burden of the tax
  - (b) The canons of taxation
  - (c) Type of tax, direct or indirect tax
  - (d) Whether the tax is continuously or periodically levied.
- (18) During the inflationary period, when income tax revenue rises faster than National income,

this illustrates:

- (a) The situation of unemployment trap.
  - (b) The poverty trap
  - (c) Fiscal boost
  - (d) Fiscal drag
- (19) A balance of payment surplus may cause:
- (a) Employment and the money supply to rise.
  - (b) The money supplies to fall
  - (c) Employment to rise and the money supply to fall
  - (d) Employment and the money supply to fall.
- (20) Green revolution refers to:
- (a) Introduction of modern technology
  - (b) Reform in land tenure system
  - (c) Introduction of agro-based industry
  - (d) Boosting exports of agricultural products