

**AGA KHAN UNIVERSITY EXAMINATION BOARD**

**HIGHER SECONDARY SCHOOL CERTIFICATE**

**CLASS XI**

**MODEL EXAMINATION PAPER 2023 AND ONWARDS**

**Principles of Economics Paper I**

**Time: 1 hour 10 minutes    Marks: 40**

**INSTRUCTIONS**

1. Read each question carefully.
2. Answer the questions on the separate answer sheet provided. DO NOT write your answers on the question paper.
3. There are 100 answer numbers on the answer sheet. Use answer numbers 1 to 40 only.
4. In each question there are four choices A, B, C, D. Choose ONE. On the answer grid black out the circle for your choice with a pencil as shown below.

Correct Way	Incorrect Ways
1 <input type="radio"/> A <input type="radio"/> B <input checked="" type="radio"/> C <input type="radio"/> D	1 <input type="radio"/> A <input type="radio"/> B <input checked="" type="radio"/> C <input type="radio"/> D
	2 <input type="radio"/> A <input type="radio"/> B <input checked="" type="radio"/> C <input type="radio"/> D
	3 <input type="radio"/> A <input type="radio"/> B <input checked="" type="radio"/> C <input type="radio"/> D
	4 <input type="radio"/> A <input type="radio"/> B <input checked="" type="radio"/> C <input type="radio"/> D

**Candidate's Signature**

5. If you want to change your answer, ERASE the first answer completely with a rubber, before blacking out a new circle.
6. DO NOT write anything in the answer grid. The computer only records what is in the circles.
7. You may use a scientific calculator if you wish.

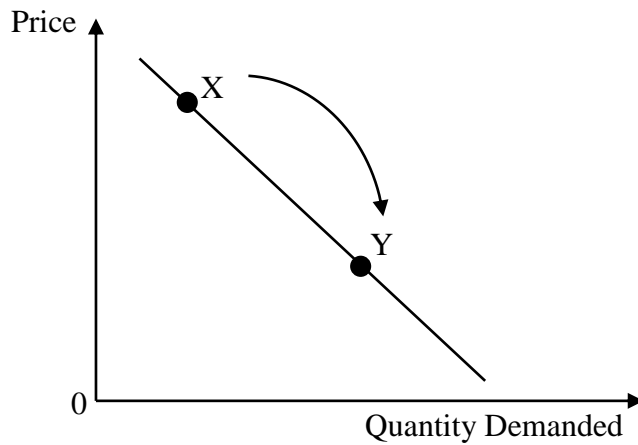
1. The study of microeconomics deals with the
  - A. firm's production capability.
  - B. rate of unemployment in a country.
  - C. exports and imports of an economy.
  - D. gross domestic product of a country.
2. Adam Smith (1723 - 1790), a Scottish economist, in the first ever book on economics, defines economics as a science of
  - A. wealth.
  - B. scarcity.
  - C. human welfare.
  - D. resource allocation.
3. A hotel cannot entertain 130 customers if it only has the capacity of 80 rooms.  
This is an example of
  - A. scarcity.
  - B. limited wants.
  - C. excess supply.
  - D. unlimited resources.
4. When the marginal utility of a product is zero, the total utility becomes
  - A. zero.
  - B. null.
  - C. minimum.
  - D. maximum.
5. The given schedule represents the consumer's utility for chocolate bars.

Units Consumed	Total Utility
1	07
2	11

The marginal utility at 2<sup>nd</sup> unit will be

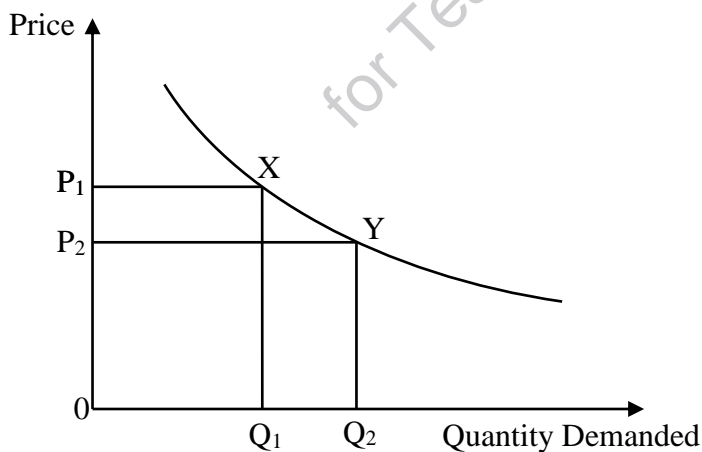
- A. 4 utils.
  - B. 7 utils.
  - C. 11 utils.
  - D. 18 utils.
6. Non-intersecting, downward sloping and convex to the origin are the features of a/ an
  - A. supply curve.
  - B. indifference curve.
  - C. marginal utility curve.
  - D. production possible curve.

7. As per the law of demand, the given graph depicts the change in quantity demanded from point **X** to point **Y**.



This labelled change in quantity demanded is because of the

- A. decrease in price.
  - B. increase in income of consumers.
  - C. decrease in prices of substitute goods.
  - D. increase in the expected price in future.
8. The given graph illustrates the relationship between price and quantity demanded of a product.



The price elasticity of demand between points **X** and **Y** depicts that the degree of elasticity of demand is

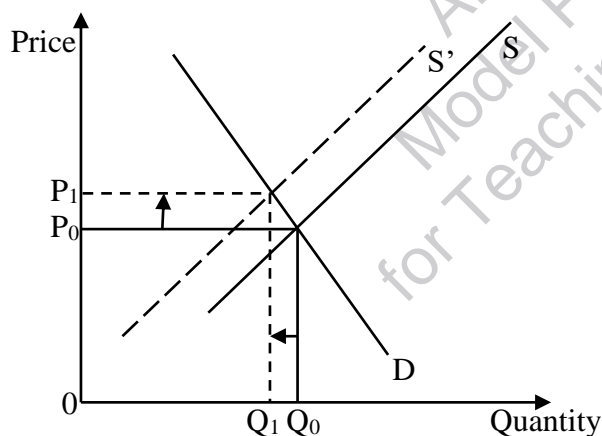
- A. elastic.
- B. inelastic.
- C. perfectly elastic.
- D. perfectly inelastic.

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9. In contrast to the law of demand, during the last few years it has been observed that air fares are consistently rising yet more and more people are travelling by air. This is because
- A. air travel is unsafe.
  - B. free air tickets were distributed.
  - C. government encourages air travel.
  - D. income level of people has increased.
10. Anna usually purchases refreshments from the school canteen from the pocket money of Rs 15 every day. Recently, her father has doubled her pocket money as a reward for her good results.

As per economic concept of demand (assuming all other factors remain unchanged), now Anna will

- A. donate the excess money to a social cause.
  - B. refuse to accept the increment in pocket money.
  - C. give excess money to her friends and colleagues.
  - D. spend more money on the purchase of refreshment.
11. The given graph shows the movement of supply curve from S to S'.



This movement of supply is termed as

- A. contraction of supply.
- B. extension of supply.
- C. fall in supply.
- D. rise in supply.

12. The law of supply states that ‘keeping other things constant, if the price of a commodity increases, its quantity supplied increases and vice versa.’

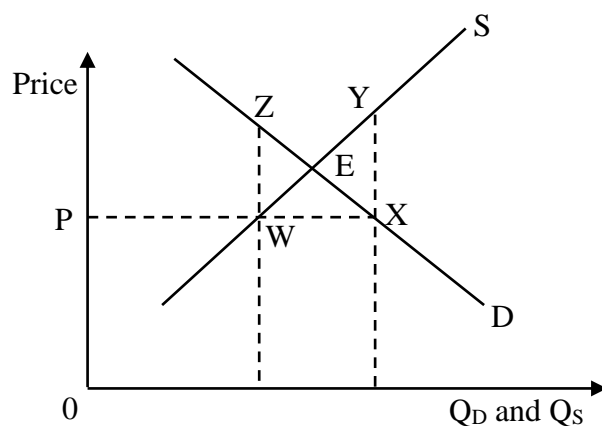
The factor that will be kept constant for the given law to be TRUE is

- A. production technique.
  - B. population of a country.
  - C. income of the consumer.
  - D. taste and preferences of the consumer.
13. The price elasticity of supply reflects the responsiveness of quantity supplied to the change in price.

If the price elasticity of a product is greater than one (i.e.  $e_s > 1$ ), then its supply is considered as

- A. elastic.
  - B. inelastic.
  - C. perfectly elastic.
  - D. perfectly inelastic.
14. Market equilibrium exists where
- A. demand is less than supply ( $D < S$ ).
  - B. demand is greater than supply ( $D > S$ ).
  - C. there is intersection of demand and supply.
  - D. there is insufficient demand and supply of a commodity.

15. The given diagram shows the supply and demand curves of a commodity. The market is in equilibrium at point E.

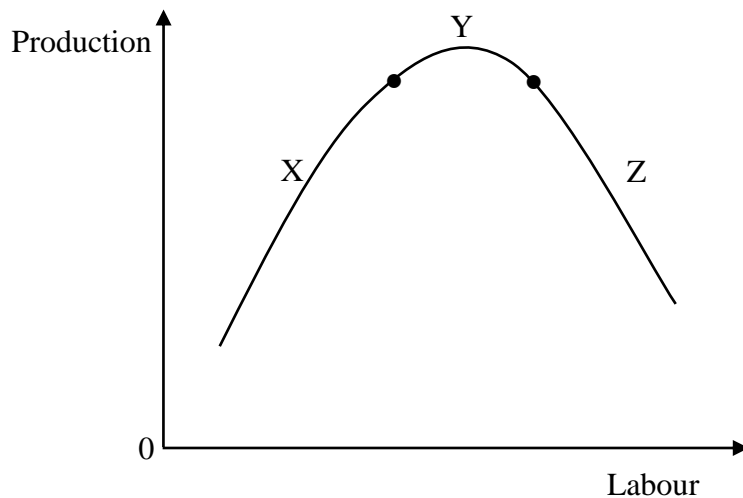


Which of the following represents shortage of supply at price P?

- A. WX
- B. YX
- C. ZW
- D. PW

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16. Given below is the graphical representation of the laws of returns.



The region marked as **X** in the given graph depicts the law of

- A. constant cost.
  - B. increasing cost.
  - C. constant returns.
  - D. increasing returns.
17. The given picture depicts a hair salon.



Which of the following aspect of the hair salon will NOT be considered as a factor of production?

- A. Haircut
  - B. Hair dryer
  - C. Hairdresser
  - D. Hairdressing shop
18. All of the following are the demerits of large scale production EXCEPT
- A. cut-throat competition.
  - B. dependence on foreign markets.
  - C. ignorance of individual taste.
  - D. specialised and up-to-date machinery.

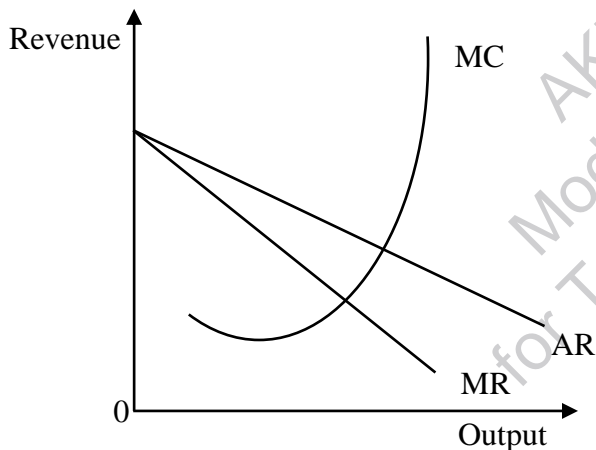
19. The salary given to the security guard, as an employee, would be considered as a/ an
- A. variable cost.
  - B. explicit cost.
  - C. implicit cost.
  - D. material cost.
20. The following schedule reflects the cost of production of a firm.

Output (units)	Variable Cost (Rs)	Total Cost (Rs)
10	300	1,000
20	?	1,500

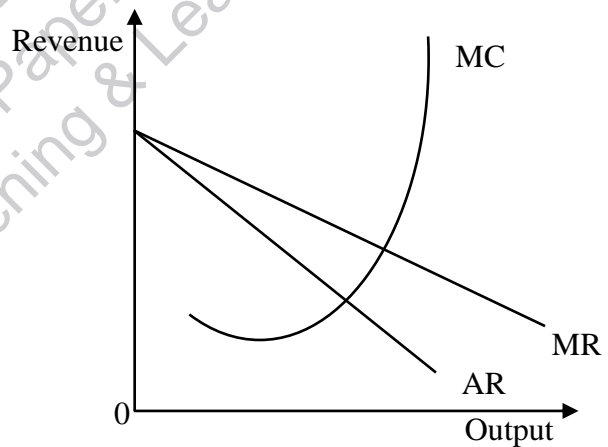
- If the fixed cost of the firm is Rs 700, then the variable cost for producing 20 units will be
- A. Rs 500
  - B. Rs 700
  - C. Rs 800
  - D. Rs 1,000
21. If Allied Shoes has reduced its prices by 10%, then the average revenue will
- A. be nil.
  - B. decrease.
  - C. increase.
  - D. remain constant.

22. In perfect competition, every profit-exploiting manufacturer looks for a market price that is identical to its
- average cost.
  - marginal cost.
  - average revenue.
  - marginal revenue.
23. In perfect competition, if a producer is facing continuous loss over long run, then the firms will
- enter the industry and equilibrium price will fall.
  - enter the industry and equilibrium price will rise.
  - leave the industry and equilibrium price will fall.
  - leave the industry and equilibrium price will rise.
24. Which of the following graphs shows the equilibrium of a firm under monopoly?

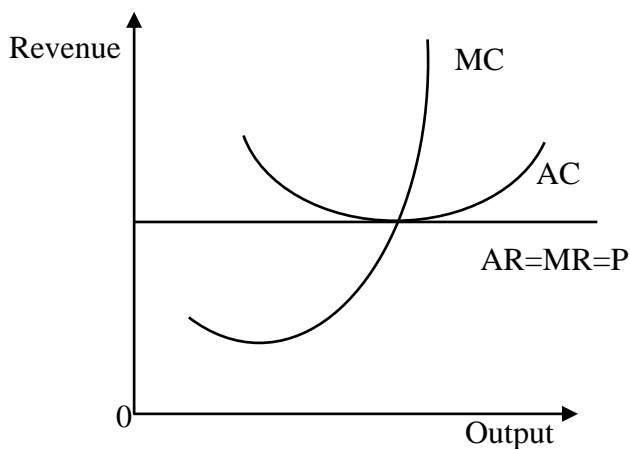
(Note: MC = Marginal Cost, AR = Average Revenue, MR = Marginal Revenue and P = Price)



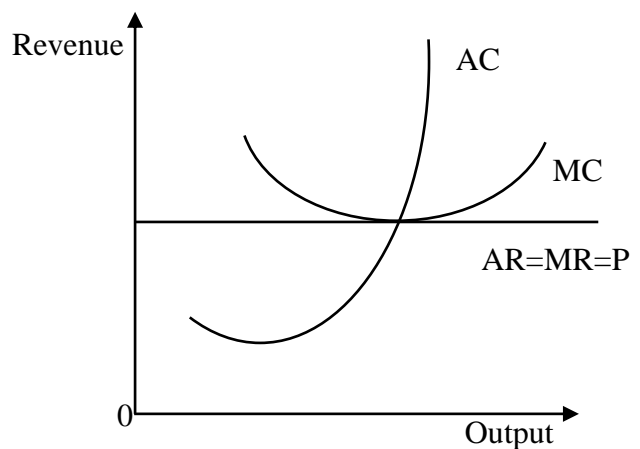
A



B



C



D



25. Amar is a skilled worker. The factory in which he works announced that as part of annual increment, the wages for the workers will be raised by 15%. The annual inflation is at 7%.

According to the given situation, the real raise in wage will be

- A. 7%.
- B. 8%.
- C. 15%.
- D. 22%.

26. Ammar works as a driver for Saima. During the year, Saima paid him the following amounts.

- Monthly wages Rs 10,000
- Medical bills paid for the whole year to the hospital Rs 12,000
- Rent paid to the landlord for Ahmed's house Rs 3,000 per month

The monthly real wage of Ammar will consist of

- A. monthly wages only.
- B. monthly wages and medical bills.
- C. monthly medical bills and rent paid.
- D. monthly wages, medical bills and rent paid.

27. The value of nominal gross domestic product (GDP) is often higher than the real GDP because of

- A. economic inflation.
- B. error in calculation.
- C. improper evaluation of resources.
- D. double counting of economic activity.

28. The payment that will NOT be included in the computation of gross domestic product (GDP), is the payment made to a

- A. house maid.
- B. welfare institution.
- C. finance minister as salary.
- D. dealer for the purchase of a new car.

29. The following data has been extracted from an economy.

Consumption	175 million US\$
Investment	150 million US\$
Government expenditure	125 million US\$
Exports	185 million US\$
Imports	275 million US\$
Depreciation	125 million US\$
Remittance	185 million US\$
Foreign income transfer	105 million US\$

The gross domestic product (GDP) of the economy will be

- A. 235 million US\$.  
 B. 360 million US\$.  
 C. 470 million US\$.  
 D. 485 million US\$.
30. The money supply in an economy was Rs 2,000 while the velocity of circulation of money was 5 and the general price level was Rs 100 with a transaction of 100.

If the government raises the money supply by 50% and general price level by 20% while the transaction remains constant, then the velocity of circulation would be

- A. 0.25  
 B. 0.83  
 C. 1.20  
 D. 4.00
31. Which of the following CORRECTLY shows the evolution of money?

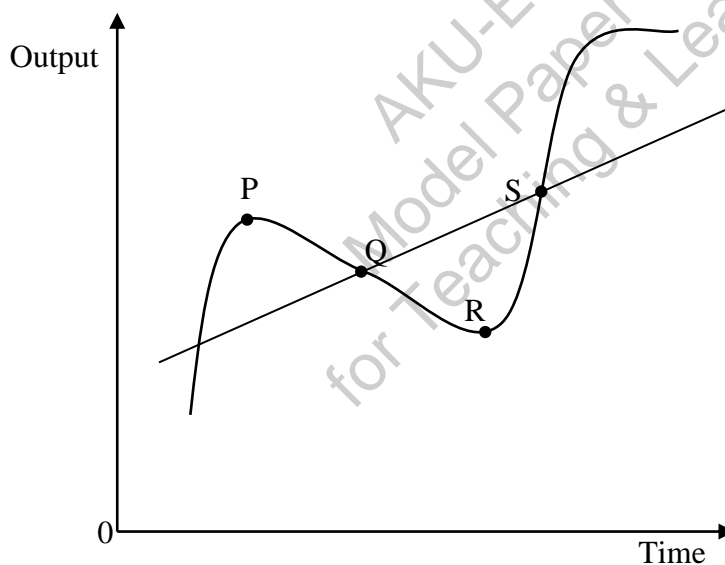
I.	Barter → Metallic money → Paper money → Plastic money
II.	Metallic money → Barter → Plastic money → Paper money
III.	Barter → Paper money → Plastic money → Metallic money
IV.	Metallic money → Barter → Paper money → Plastic money

- A. I  
 B. II  
 C. III  
 D. IV

32. The Government of Pakistan is planning to increase the interest rate in the upcoming monetary policy.

With this increase in interest rate, the government will MOST likely achieve

- A. price stability.
  - B. full employment.
  - C. economic growth.
  - D. equal income distribution.
33. A period of expansion and contraction of overall economic activity is depicted by
- A. inflation rate.
  - B. business cycle.
  - C. economic indicators.
  - D. the circular flow of national income.
34. The given graph shows the business cycle of economy.



The point that represents the 'recession' of the economy is

- A. P
- B. Q
- C. R
- D. S

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35. Which of the following is the component of current account head of balance of payments (BoP)?
- A. Reserves of gold and silver
  - B. Purchase and sale of goods
  - C. Investment in other countries
  - D. Income from factors of production
36. Nations conduct international trade primarily because
- A. all nations can produce everything they acquire.
  - B. trade enhances opportunities to accumulate profits.
  - C. interest rates are not identical in all trading nations.
  - D. resources are not equally distributed in all trading nations.
37. The current account of balance of payments of an economy consists of
- A. grants and donation.
  - B. import and export of goods only.
  - C. import and export of services only.
  - D. import and export of goods and services.
38. *Zakat* is beneficial for functioning of the society as it
- A. promotes equality.
  - B. favours individualism.
  - C. strengthens the class system.
  - D. promotes proper allocation of resources.
39. All of the following are categorised under current account head of public expenditure in Pakistan EXCEPT
- A. expenditure on civil administration.
  - B. expenditure on building new railway.
  - C. payment of day-to-day expenses of a public hospital.
  - D. payment of salary to the chief justice of supreme court.
40. In the year 2014, Rehan's income was Rs 100,000, and, he paid Rs 5,000 as tax. In 2015, his income increased to Rs 200,000 and he paid Rs 20,000 as tax.
- Based on the given scenario, the type of tax levied on Rehan is classified as
- A. capital tax.
  - B. regressive tax.
  - C. progressive tax.
  - D. proportional tax.

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