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PUBLIC SERVICE COMMISSION

Examination for the Post: ASSISTANT PROFESSOR (BPS-18)

QUESTION PAPER   Date : 03-03-2015

Subject: Economics

Time Allowed: 3 Hours   Maximum Marks: 100

Note: Attempt any five questions out of eight. Each question carry equal marks (20)

Q1.   a) What is economic development? How can you measure the economic development of a country like Pakistan?

   b) Discuss the role and problems of capital formation in economic development of Pakistan.

   c) "Pakistan is an Agrarian Economy". Still its yield per acre is low. Do you agree with the statement? Please elaborate.

   d) What is the impact of privatization policy of the government of Pakistan?

   e) Internal and foreign debts are burden on the economy of Pakistan. Give suggestions for the retirement of debts.

Q2.   a) Explain the consumer's equilibrium through indifference curve analysis.

   b) What is monopoly? How is price and output determined under monopoly?

   c) Explain and Illustrate the cost curves of the firm in the short run and long run?

   d) Define monopolistic competition. How price and output is determined under monopolistic competition?

   e) Define perfect competition. How price and output is determined under perfect competition?

Q3.   a) Discuss in detail the liquidity preference theory of interest?

   b) Discuss various types and canons (Principles) of taxation?

   c) What are the determinants of the dead weight loss by the taxes?

   d) Taxation creates dead weight loss whether it is imposed on producer or consumer. Prove it!

   e) Explain the meaning of Zakat and Usher. Also discuss the Impact of Zakat and taxation on the economy?

Q4. a) Taxes affect the variety of aspects of household behavior. How the taxes affect savings and earning (wage and interest income) behavior of the human beings. Quantify these impacts by using indifference curve approach.

b) What is money neutrality and super neutrality? In what way does it distinguish between the Keynesian and neo-Classical views of monetary policy?

c) What are the sources of externalities and explain the private solutions of the problem of externalities?

d) How do the Arrow Impossibility theorem, single peaked preferences and median voter equilibrium suggest the solution of inefficiency of majority voting?

e) What is the efficiency condition for the provision of public goods and how would you derive individual and collective demand for the public goods?

Q5. Some people think that International Organization for Standardization (ISO) certification of a company improves the repute of a company and hence the profitability. A researcher is interested in knowing the difference in profitability of company due to ISO certification. He collects data, and estimates following regression:

$$P = a + b_1V + b_2Adv + b_3d_{iso} + e$$

Where P is profit, V is the Business Volume, Adv is expenditures on Advertisements and d_{iso} is Dummy for ISO certification which takes value 1 if the company is ISO certified and 0 otherwise. The regression output is as follows:

Multiple R	0.981		
R Square	0.972		
Standard Error	2.43		
Observations	200		
	Coefficients	Standard Error	P-value
Intercept	0.45	0.150	0.00
V	0.26	0.111	0.01
Adv	0.35	0.151	0.03
diso	0.17	0.079	0.03

a) The regression output supports the idea that ISO certification improves the profitability, do you agree? Support your answer using suitable statistics from the output given above.

b) Write separate regression equations for

   i) Company which is ISO certified
   ii) Company which is not ISO certified

c) Discuss/interpret following regression outputs:

   i) R-square
   ii) P-value

d) A company which is ISO certified and has Business volume of 20, consumes 3 units on advertising, predict its expected profit and also construct a 95% confidence interval for this prediction.

e) Construct a 95% confidence interval for the coefficient of diso. Interpret this confidence interval, and test the hypothesis $b_3 = 0$.

Q6. Consider a labor market which is initially in its equilibrium; now assume that the government raises taxes in order to increase its tax revenues. With reference to the quoted context give concrete answer to the following questions:

a) How would this tax increase affect the labor market in general?

b) How would labor market respond if this tax increase is accompanied with a surge of inflation on account of loose monetary policy and it is known that wage structure in the labor market is:

   i) Flexible
   ii) Rigid upward

c) If tax increase, high inflation and wage flexibility assumptions are kept intact, how would labor market respond if agents in the labor market forms expectations based on adaptive mechanism?

d) Sketch the slope of aggregate supply graph in all of the above mentioned cases.

Q7. Theoretically justify the following statements, draws graphs where necessary,

a) The magnitude of government expenditure multiplier and tax multiplier is not same.

b) Slope of aggregate demand is sensitive to the elasticity of money demand with respect to interest rate.

c) The price structure in Classical and Keynesian model; is not same.

d) Inventories play a stabilizing role in equilibrating the economy's output.

e) Slope of LM becomes horizontal corresponding to the areas of liquidity trap.

Q8. Theoretically justify the following statements, draws graphs where necessary,

a) Positive slope of LM schedule can be justified with the help of Quantity Theory of Money (QTM), how?

b) Suppose government reduces tariff on imported items, sketch the implication of this policy graphically within the domain of market for real exchange, clearly mentioning what would happen to the volume of trade and trade balance.

c) If the domestic price level increases how will it affect the nominal and real exchange rate?

d) Inventories play a stabilizing role in equilibrating the output with the domain of Keynesian cross framework, discuss.

e) The story of the pre-math of great depression identifies some critical factors which can be regarded as the underlying cause of great depression. Mention those factors.

GOOD LUCK