



**Provincial Department of Education
Northern Province
General Certificate of Education (Adv.Level) Examination
Term Examination 2020 -
Economics- Part 11**



Grade 13 (2020)

Time: 3 Hours

Instruction

Answer five questions only, selecting minimum of two questions from sub-section 'A' and two questions from sub-section 'B'.

Sub section 'A'

Select minimum of two questions from this section.

01.

- a) Explain the opportunity cost (04 marks)
- b) Explain the functions of price in market economy. (04 marks)
- c) Identify the failure of command economy (04 marks)
- d) Which type of production possibility curve is appropriate to current situation? What kind of opportunity cost was explained? What are reasons for this opportunity cost? (04 marks)
- e) Explain the following events by using production possibility curve diagram.
 - 1) Receiving foreign investments
 - 2) Unemployment
 - 3) Economic growth
 - 4) Unattainable combination

02.

- a) What are the factors that determine individual demand? (04 marks)
- b) Explain the following
 - i. Normal good
 - ii. Inferior good
 - iii. Giffen good(04 marks)
- c) State the type of elasticity for the every following statement.
 - i. When price of a good increased, producer income increased
 - ii. When price of a good increased, producer income remains constant
 - iii. When price of a good increased producer income changed as zero
 - iv. When price of a good increased, quantity demanded remains constant(04 marks)
- d) The following demand and supply equation are given below,
 - $Q_d = 100 - 2p$ $Q_s = 30 + 3p$
 - i. What is the value of equilibrium price and quantity (02 marks)
 - ii. What is the value of price elasticity of demand? (02 marks)
 - iii. The demand equation change as $Q_d = 200 - 2p$.
What are the reasons for change in demand equation? (04 marks)

03.

- a) Why the good has an elastic demand? Give reasons. (04 marks)
b) What are the economic effects of minimum control price? (04 marks)
c) The demand and supply equation are given below.

$$Q_d = 600 - 10p$$

$$Q_s = 10p$$

- i. Find equilibrium price and quantity (02 marks)
ii. If the government impose floor price as Rs 50 to this goods, what is the amount of excess supply? (02 marks)
iii. If the government purchase excess supply at floor price, what is the value of consumer surplus and producer surplus? (04 marks)
iv. What is the amount of social welfare loss? (04 marks)

04.

- a) Is economic profit include in the production cost? Explain your answer. (04 marks)
b) What happen to average variable cost and average total cost, when output of a firm increase? Explain. (04 marks)
c) The following data are related to income and expenditure for equilibrium of a perfectly competitive firm?

Marginal revenue	100
Marginal cost	100
Minimum average cost	160
Minimum Average variable cost	110

- What action the firm should take? Explain your constants. (04 marks)
d) What are the features of monopolistic competitive firm? (04 marks)
e) What is meant by economic rent? In which situation total factor earnings will consist of economic rent? (04 marks)

05.

- a) Distinguish between economic recession and economic depression. (04 marks)
b) What are the items included in production bountry? (04 marks)
c) Distinguish between autonomous consumption and induced consumption. (04 marks)
d) The following data are related to macro economy.
- | | |
|---|------|
| - Final consumption expenditure | 700 |
| - Gross domestic capital formation | 1000 |
| - Change in stock | 200 |
| - Gross domestic product at market price | 1500 |
| - Exports | 150 |
| - Net primary income from rest of the world | 250 |
- i. What is the value of import? (02 marks)
ii. What is the value of gross domestic expenditure (GDE)? (02 marks)
iii. What is the value of gross national product? (02 marks)
e) Government expenditure multiplier of an economy is 4. The government expenditure increase by 500 million. Calculate the following,
- i. Marginal propensity to consume (MPC). (02 marks)
ii. Change in equilibrium level of national income? (02 marks)
iii. What is the value of consumption at increasing income? (02 marks)

Sub section 'B'

Select minimum of two questions from this section.

06.

- a) Identify the function of money. (02 marks)
- b) What is the meant by high powered money? What are the items included in high powered money? (04 marks)
- c) What are the factors that determine money supply of an economy? (04 marks)
- d) Distinguish between demand pull inflation and cost push inflation? (04 marks)
- e) The following data given below
- | | |
|---|------|
| - Currency held by public | 800 |
| - Currency by commercial bank | 200 |
| - Demand deposit held by public with commercial bank | 1800 |
| - Time and saving deposit held by public with commercial bank | 1500 |
| - Commercial bank deposit with central bank | 100 |
- Calculate the following,
- i. Monetary base (02 marks)
- ii. Money multiplier (M1) (02 marks)
- iii. Money supply (M2) (02 marks)

07.

- a) What are the primary functions of central bank? (04 marks)
- b) What is meant by monetary policy?
What are the instruments of monetary policy? (04 marks)
- c) Distinguish between standing deposit facilities and standing lending facilities of central bank? (06 marks)
- d) What are the sub markets of capital market? Explain. (06 marks)

08.

- a) What are the primary reserves of commercial bank? (04 marks)
- b) Explain credit creation of commercial bank? Give assumption of credit creations. (04 marks)
- c) Money supply of a particular economy is 7500 billion and total demand deposit of banking system is 5000 billion

Balance sheet of banking system

Liabilities		Assets	
Demand deposit	5000	Cash reserve	500
		Loan	4500
	5000		5000

- i. If excess reserve is 250 billion, what is the value of cash reserve rate? (02 marks)
- ii. What is the value of deposit multiplier? (02 marks)
- iii. If banking system is provided all excess reserve as loan, what is the value of additional deposit creation? (02 marks)
- iv. What is the value of the money supply of a country? (02 marks)
- v. Give bank's balance sheet after the credit creation? (02 marks)
- vi. Identify the reasons for the lower credit creation than that the commercial bank able to create the credit creation at a particular required reserve rate? (02 marks)

09.

- a) What is meant by market failure? What are the causes of market failure? (04 marks)
- b) Explain the negative externalities in production with two examples? (04 marks)
- c) Why free market economy produce negative externalities good at over limit. Explain your answer with appropriate diagram. (04 marks)
- d) What is meant by government failure? What are the reasons government failures? (04 marks)
- e) What are the actions taken to correct market failure which causes externality? (04 marks)

10.

- a) Give the principles of taxation? (04 marks)
- b) What are the economic impacts of taxation? (04 marks)
- c) Increase in government expenditure lead to economic growth. Explain it? (04 marks)
- d) Explain overall balance and primary account balance? (04 marks)
- e) Explain the main features of government recurrent expenditure of government budget. (04 marks)