



ZIAUDDIN UNIVERSITY
EXAMINATION BOARD

RESOURCES FOR
“HSC-II ECONOMICS”
ZUEB EXAMINATIONS 2021



PREFACE:

The ZUEB examination board acknowledges the serious problems encountered by the schools and colleges in smooth execution of the teaching and learning processes due to sudden and prolonged school closures during the covid-19 spread. The board also recognizes the health, psychological and financial issues encountered by students due to the spread of covid-19.

Considering all these problems and issues the ZUEB Board has developed these resources based on the condensed syllabus 2021 to facilitate students in learning the content through quality resource materials.

The schools and students could download these materials from www.zueb.pk to prepare their students for the high quality and standardized ZUEB examinations 2021.

The materials consist of examination syllabus with specific students learning outcomes per topic, Multiple Choice Questions (MCQs) to assess different thinking levels, Constructed Response Questions (CRQs) with possible answers, Extended Response Questions (ERQs) with possible answers and learning materials.

ACADEMIC UNIT ZUEB:

2. Constructed Response Questions (CRQs)

HOW TO ATTEMPT CRQs:

- Write the answer to each Constructed Response Question/ERQs in the space given below it.
- Use black pen/pencil to write the responses. Do not use glue or pin on the paper.

SECTION B (SHORT ANSWER QUESTIONS)

- **Explain Micro and Macro Economics?**

_____Microeconomics

Definition:_____

_____ Microeconomics is a branch of economics that studies the behavior of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals _____ and firms._____

____ Concept of Microeconomics • Microeconomic study deals with what choices people make, what factors influence their choices and how their decisions affect the goods markets by affecting the price, the supply and demand. • One goal of microeconomics is to analyze the market mechanisms that establish relative price among goods and services and allocate limited resources among alternative uses. • Microeconomics shows condition under which free markets lead to desirable allocations. • It also analyzes market failure, where markets fail to produce efficient results.
• _____

_____Macroeconomics: Definition:_____ Macroeconomics is the study of the performance, structure, behaviour and decision-making of an economy as a whole. It focus on the national, regional, and global scales to maximize national income and provide national economic growth._____

___ Concept of Macroeconomics: • The term 'Macro' has been derived from a Greek word 'Macros' meaning 'large'. Thus Macro- economics is the study and analysis of an economy as a whole. • The study of the performance, structures behavior and decision making of an economy as a whole, rather than individual markets. • Macroeconomists focus on the national, regional and global scales • For most macroeconomists the purpose of this discipline is to maximize national income and provide national economic growth. • This growth further increases utility and improve standard of living for the economy's participants._____

S.NO	CRQ	ANSWER	CL	DL
<u>MICROECONOMICS</u>				
1.	Explain Ricardian theory of rent	David Ricardo (1772-1823)propounded his theory of rent on the basis of the idea of Adam Smith and Malthus. Ricardo finds rent as,	K/A	E

		<p>“Rent is that portion of the produce of the earth which is paid to the landlord for the use of original and indestructible power of the soil.” An important criticism leveled against Ricardian theory of rent concerns the relation between rent and price. According to Ricardo, price determines rent. The higher the price of corn, the higher will be the rent. The price of corn is determined by the cost of producing corn on the marginal land which is rent-free.</p>		
2.	Distinguish between nominal wages and real wages	<p>Nominal wages are the wages received by a worker in the form of money. On the other hand, real wages can be defined as the amount of goods and services that a worker purchases from his/her nominal wages. Therefore, real wages are the purchasing power of nominal wages.</p>	K/A	E
3.	List the various problems of barter system.	<p>The following are the main difficulties which were found in the barter system: Double Coincidence of Wants: ... Lack of a Standard Unit of Account: ... Impossibility of Subdivision of Goods: ... Lack of Information: ... Production of Large and Very Costly Goods not Feasible:</p>	K/A	E
4.	State the functions of commercial bank	<p>The primary functions of a commercial bank are accepting deposits and also lending funds. Deposits are savings, current, or time deposits. Also, a commercial bank lends funds to its customers in the form of loans and advances, cash credit, overdraft and discounting of bills and performs agency services for its customers.</p>	K/A	E

5.	Distinguish between personal income and disposable personal income	Personal income refers to the total earnings generated by an individual from investments, salaries, dividends, bonuses, pensions, social benefits and other ventures over a given period. On the other hand, disposable income refers to the amount of revenue or funds a person has after taxes have been paid.	K/A	E
6.	Explain the quantity theory of money	Definition: Quantity theory of money states that money supply and price level in an economy are in direct proportion to one another. When there is a change in the supply of money , there is a proportional change in the price level and vice-versa. For example , if the Federal Reserve or Central Bank doubled the supply of money in the economy, the long-run prices in the economy would tend to increase dramatically. This is because more money circulating in an economy would equal more demand and spending by consumers, driving prices up.	K/A	M
7.	Write the advantages of international trade	Increased revenues. Decreased competition. Longer product lifespan. Easier cash-flow management. Better risk management. Benefiting from currency exchange. Access to export financing. Disposal of surplus goods. Enhanced reputation Opportunity to specialize.	K/A	M
8.	Explain the canons of taxation given by adam smith	By canons of taxation we simply mean the characteristics or qualities which a good tax system should possess. In fact, canons of taxation are related to the administrative part of a tax. Adam Smith first devised the principles or canons of taxation in 1776.	K/A	M

		<p>four canons of taxation given by Adam Smith are:</p> <p>(i) Canon of equality or equity : The canon of equality or equity implies that the burden of taxation must be distributed equally or equitably in relation to the ability of the tax payers.</p> <p>(ii) Canon of certainty: According to A. Smith, the time of payment, the manner of payment, the quantity to be paid, i.e., tax liability, ought all to be clear and plain to the contributor and to everyone.</p> <p>(iii) Canon of economy : This canon implies that the cost of collecting a tax should be as minimum as possible.</p> <p>(iv) Canon of convenience: Taxes should be levied and collected in such a manner that it provides the greatest convenience not only to the taxpayer but also to the government.</p>		
9.	State the functions of a trade union	<p>The main functions of the trade union are to protect and defend the interests of workers by serving as a mediator between the workers and the company. Trade unions exist to help workers ban together to have a stronger collective voice of influence. To secure fair wages to workers,To safeguard security of tenure and improve conditions of service,To enlarge opportunities for promotion and training, To improve working and living conditions.</p> <p>The main functions of the trade union are to protect and defend the interests of workers by serving as a mediator between the workers and the company. Trade unions exist to help workers ban together to have a stronger collective voice of influence. To secure fair wages to workers,To safeguard security of tenure</p>	K/A	M

		and improve conditions of service, To enlarge opportunities for promotion and training, To improve working and living conditions.		
10.	Define the function of money	<p>The following points highlight the top six functions of money.</p> <p>Function # 1. A Medium of Exchange: The only alternative to using money is to go back to the barter system. However, as a system of exchange the barter system would be highly impracticable today.</p> <p>Function # 2. Measure of Value: Money is the measuring rod of everything. By acting as a common denominator it permits everything to be priced, that is, valued in terms of money. Thus, people are enabled to compare different prices and thus see the relative values of different goods and services.</p> <p>Function # 3. A Store of Value</p>	K/A	E

(Purchasing Power):

A major disadvantage of using commodities — such as wheat or salt or even animals like horses or cows — as money is that after a time they deteriorate and lose economic value. By using money, such problems can be overcome and people are able to save for the future.

Function # 4. The Basis of Credit:

Money facilitates loans. Borrowers can use money to obtain goods and services when they are needed most.

Function # 5. A Unit of Account:

An attribute of money is that it is used as a unit of account. The implication is that money is used to measure and record financial transactions as also the value of goods or services produced in a country over time.

Function # 6. A Standard of

		<p>Postponed Payment: This is an extension of the first function. Here again money is used as a medium of exchange, but this time the payment is spread over a period of time. Thus, when goods are bought on hire-purchase, they are given to the buyer upon payment of a deposit, and he then pays the remaining amount in a number of installments.</p>		
11.	Explain the canon of taxation presented by Adam Smith	<p>By canons of taxation we simply mean the characteristics or qualities which a good tax system should possess. In fact, canons of taxation are related to the administrative part of a tax. Adam Smith first devised the principles or canons of taxation in 1776.</p> <p>four canons of taxation given by Adam Smith are:</p> <p>(i) Canon of equality or equity : The canon of equality or equity implies that the burden of taxation must be distributed equally or equitably in relation to the ability of the tax payers.</p> <p>(ii) Canon of certainty: According to A. Smith, the time of payment, the manner of payment, the quantity to be paid, i.e., tax liability, ought all to be clear and plain to the contributor and to everyone.</p> <p>(iii) Canon of economy :</p>	K/A	E

		<p>This canon implies that the cost of collecting a tax should be as minimum as possible.</p> <p>iv) Canon of convenience: Taxes should be levied and collected in such a manner that it provides the greatest convenience not only to tax payers but also to the government.</p>		
12.	Define function of central bank	<p>The <u>central bank</u> has been described as the "<u>lender of last resort</u>," which means it is responsible for providing its nation's economy with funds when <u>commercial banks</u> cannot cover a supply shortage. In other words, the central bank prevents the country's banking system from failing.</p> <p>However, the primary goal of central banks is to provide their countries' currencies with price stability by controlling inflation. A central bank also acts as the regulatory authority of a country's <u>monetary policy</u> and is the sole provider and printer of notes and coins in circulation.</p> <p>Time has proved that the central bank can best function in these capacities by remaining independent from government <u>fiscal policy</u> and therefore uninfluenced by the political concerns of any regime. A central bank</p>	K/A	M

		should also be completely divested of any commercial banking interests.		
13.	Define trade union and its objectives	<p>Trade union, also called labour union, association of workers in a particular trade, industry, or company created for the purpose of securing improvements in pay, benefits, working conditions, or social and political status through collective bargaining.</p> <p>The main functions of the trade union are to protect and defend the interests of workers by serving as a mediator between the workers and the company. Trade unions exist to help workers ban together to have a stronger collective voice of influence. To secure fair wages to workers,To safeguard security of tenure and improve conditions of service,To enlarge opportunities for promotion and training, To improve working and living conditions.</p> <p>The main functions of the trade union are to protect and defend the interests of workers by serving as a mediator between the workers and the company. Trade unions exist to help workers ban together to have a stronger collective voice of influence. To secure fair wages to workers,To safeguard security of tenure and improve conditions of service,To enlarge opportunities for promotion and training, To improve working and living conditions.</p>	K/A	M
14.	Distinguish between GNP and GDP	GDP vs. GNP: An Overview	K/A	M

		<p><u>Gross domestic product (GDP)</u> is the value of a nation's finished domestic goods and services during a specific time period. A related but different metric, the <u>gross national product (GNP)</u>, is the value of all finished goods and services owned by a country's residents over a period of time.</p> <p>Both GDP and GNP are two of the most commonly used measures of a country's economy, both of which represent the total <u>market value</u> of all goods and services produced over a defined period.</p> <p>There are differences between how each one defines the scope of the economy. While GDP limits its interpretation of the economy to the geographical borders of the country, GNP extends it to include the net overseas economic activities performed by its nationals.</p>		
15.	Distinguish between economic rent and quasi rent	<p>Difference between Rent and Quasi-Rent: The important difference or dissimilarities between Rent and Quasi-Rent are as under:</p>	K/A	M

		<p>1. Rent arises from land and other free gifts of nature whereas the quasi-rent arises from the man-made capital equipment.</p> <p>2. Rent arises both in short and long-period whereas the quasi-rent arises only in the short-period.</p> <p>3. Rent is permanent whereas quasi-rent is temporary.</p> <p>4. Rent is an unearned income whereas quasi-rent is an essential payment.</p> <p>5. Rent cannot be zero whereas quasi-rent can be zero.</p> <p>ADVERTISEMENTS:</p> <p>6. Rent is associated with Prof. David Ricardo whereas quasi-rent is associated with Prof. Alfred Marshall.</p>		
16.	<p>What is the difference between profit and interest</p>	<p>The main difference between interest and profit is that interest is given for the use of capital whereas profit is a reward for entrepreneurship. Interest is determined by the demand and supply of capital. Profitability is determined by the efficient</p>	K/A	M

		allocation of factors of production.		
17.	Discuss the advantages and disadvantages of direct taxes	<p>(A) Merits:</p> <p>1. Equity: A direct tax is an equitable tax. Through it the rich can be made to pay more than the poor. In case of necessity, the poor people can be granted exemption from payment of such taxes.</p> <p>2. Certainty: A direct tax satisfies the canon of certainty. For instance, a person liable to pay income tax knows how much he will be required to pay; for that purpose he can appropriate steps beforehand.</p> <p>3. Elasticity: A direct tax has elasticity. It can be varied according to the needs of the government and changes in the income of the people. When the income of the people goes up, the rate of income tax can also be increased. If the income of the people falls, the rate of income</p>	K/A	E

tax can also be lowered.

4. Productivity:

Direct taxes constitute an important source of government revenue. Their collection charges are also low. Therefore, direct taxes are productive.

5. People's Consciousness:

A direct tax increases the civic sense of the people. When the people are fully aware of the payment of taxes, they are also conscious of the way the government spends the money. They resent unproductive or wasteful expenditure. As a result, the government becomes careful in its expenditure.

(B) Demerits:

But direct taxes have certain demerits or defects, too.

These are:

1. Lack of Popularity:

First, such taxes are not very popular, because the people

have to bear the burden of such taxes directly. That is why, when the rate of a direct tax is raised, most people express their resentment against the government. For instance, when the rate of personal income tax or corporate profit tax is raised, criticism from those affected becomes very strong.

2. Evasion:

The second disadvantages of a direct tax is that it is liable to be evaded. By submitting false returns, many people try to evade income tax. Unless the civic sense of the people is well – developed and there is spread of education among them, the administration of direct taxes is very difficult.

3. People's Indifference:

The third disadvantage of a direct tax is that it does not develop the civic sense of those who do not pay such taxes. In the case of

income tax, people with incomes below a certain level are not liable to pay tax. In a low-income country like India, the majority of the people are not required to pay income tax. When a man directly bears the burden of a tax, he tries to know how the government spends that money. Those who are not directly affected by the burden of taxation remain indifferent as to the way the public expenditure is incurred.

4. Disincentive to Work and Save:

Another disadvantage of direct taxes is that they reduce the desire to work and save. The rate of direct taxes are usually high. Many business ventures are not undertaken on the ground that a large part of the income earned will have to be given to the government in the form of taxes. Thus, direct taxes reduce

		<p>incentives to work hard and save.</p> <p>As the direct taxes have these defects, in a good tax system there should be indirect taxes, too.</p>		
18.	Differentiate between private finance and public finance	<p>Dissimilarities between Public Finance and Private Finance:</p> <p>There are some basic differences between private and public finance. Some of the important differences are:</p> <p>(a) Objectives are Indeed Different:</p> <p>Private individuals or firms are mainly concerned with private consumption or profits, while the government aims at promoting the society's welfare. Again, an individual or a firm is mainly concerned with present profits and prospects, not with that of the distant future. But the government has to serve society generation after generation.</p>	K/A	E

(b) Public Expenditure Determines Public Revenue:

An individual usually prepares his family budget in accordance with the income that he expects to receive. Income is, thus, the crucial determinant of individual budget. On the other hand, the government usually prepares its budget of expenditures and then searches wherefrom it can raise the required funds to meet the expenditures.

(c) Public Budget is not Necessarily Balanced:

An individual tries to maintain a balanced budget and maintenance of a surplus budget is a virtue. Instead of a balanced or a surplus budget it is desirable to have a deficit budget of a government so as to increase the country's productive power.

(d) Methods of Raising Resources are Different:

One of the important areas of differences

between public and private finance lies in the method of raising income.

First, resources of the state are large compared to individuals. Secondly, a government has the power to raise revenues from nationals as taxes are defined as the compulsory contributions to the government. An individual cannot force others to pay him money. In order to raise money, a government can print money.

(e) Public Finance is Transparent:

Private finance relating to sources of revenue and spending is a secret affair. An individual tries to maintain secrecy of his accounts. Usually, an individual does not disclose his financial standing. Nor such disclosure has any significance to other people.

		<p>No such secrecy is maintained in the case of public finance. Government places its budget (i.e., estimated accounts of income, expenditure, methods of financing deficit) in the parliament. All these information are available in the news media so that transparency in public budget is maintained.</p>		
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<u>PAKISTAN ECONOMICS</u>				
19.	State the significance of motorways in Pakistan	<p>Pakistan's motorways are an important part of Pakistan's "National Trade Corridor Project",^[9] which aims to link Pakistan's three Arabian Sea ports (Karachi Port, Port Bin Qasim and Gwadar Port) to the rest of the country through its national highways and motorways network and further north with Afghanistan, Central Asia and China. The project was planned in 1990. The China Pakistan Economic Corridor project aims to link Gwadar Port and Kashgar (China) using Pakistani motorways, national highways, and expressways.</p>	K/A	M
20.	Highlight the role of the state bank or Pakistan in the economics development of the country	<p>The main purpose of the state bank of Pakistan is to "regulate the issue of banks notes and keeping reserves because of securing monetary stability with in a country and also operate the currency system as well as the credit system with in a country".</p> <p>functions of the state bank include regulation and supervision of the financial system, issuing of notes, and</p>	K/A	M

		conduct of monetary policy of Pakistan		
21.	Distinguish between developmental expenditure and Non-developmental expenditure	<p>(i) Developmental expenditure. It refers to expenditure on activities which are directly related to economic and social development of the country.</p> <p>(ii) Non-developmental expenditure. It refers to government expenditure incurred on essential general services of routine nature like defence, administration, etc.</p>	K/A	M
22.	Write the causes of inflation in Pakistan	<p>CAUSES OF INFLATION IN PAKISTAN</p> <p>Increase in Money Supply. The major cause of increase in the price level is an increase in money supply.</p> <p>Increase in Velocity of Money.</p> <p>More Investment.</p> <p>Non-productive Expenditures.</p> <p>Corruption & Black Money.</p> <p>Deficit Financing. ...</p> <p>Foreign Remittances.</p> <p>Foreign Aids.</p>	K/A	E
23.	Distinguish between Zakat and Tax	While zakat has a religious sanctity, tax is not like that. Tax is collected from all citizens of a country. The government collects tax for the overall development of the country, On the other hand, Zakat is only imposed on Muslims. Zakat is fixed as per the Holy Quran and cannot be changed by any person.	K/A	E
24.	Write the causes of budget deficit of Pakistan	The two main causes of a budget deficit are excessive government spending and low levels of taxation that don't cover expenditure. Tax cuts	K/A	E

		can cause declines in revenue can result in a budget deficit , or, a massive fiscal stimulus can increase government spending over and above the income it receives.		
25.	Explain the economics significance of Zakat	<p>Zakat is an Arabic term meaning “that which purifies”, its concept is based on balancing wealth between the rich and the poor. It is one of the five pillars of Islam. For Muslims, Zakat is a religious duty through which one expresses concern for the well being of fellow Muslims as well as preserving social harmony between the wealthy and the poor.</p> <p>at the economic level Zakat plays probably the most important role that it ensures, that wealth and property are not held and controlled only by a section of the society, this concept in Islam is completely against the western practice of capitalism, which ensures that wealth is controlled only by the top few.</p> <p>Zakat being the distributive mechanism that it seeks to establish such a society in which wealth and property are both equally distributed so that inequity and injustice can be eradicated from the society.</p>	K/A	M
26.	Name various means of transport and communication of Pakistan	TRANSPORT Pakistan’s transportation network, albeit not as modern and efficient as that of developed countries, is	K/A	E

		<p>considerably more efficient than it was a decade ago. Users of the network have a wider range of modes to choose from.</p> <ul style="list-style-type: none"> <li data-bbox="970 280 1246 1339">i. Road Transport Pakistan's transport system is primarily dependent on road transport, which makes up 90 percent of national passenger traffic and around 96 percent of freight movement. Over the past several years, road traffic – both passenger and freight – has grown much faster than the country's overall economic growth. <li data-bbox="970 1350 1246 2027">ii. Pakistan Railways Pakistan Railways has a definite edge over roads for long haul and mass scale traffic movement both for passengers and freight in addition to providing a safe, economical, and environment 		
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		<p>friendly mode of transport.</p> <p>iii) Civil Aviation Authority (CAA) Civil aviation plays an important role in the development of a country's economy by providing fast and efficient access between different parts of the country as well as different destinations around the world. Private participation on this front has been encouraged through concessions and incentives for development of airports and airlines to increase the availability of air transport services both domestically and internationally . It is important to construct and maintain airports in the country to facilitate economic activity in an increasingly globalized world.</p> <p>4) Shipping</p>		
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		<p>The role of seaborne trade in economic growth</p> <p>As evidence, he notes that in many of the world's top thirty economies, maritime exports make up over 10% of the national income. In case of Pakistan; seaborne exports contribute 17% to the GDP.</p>		
27.	What are the causes of unfavorable balance of payment of Pakistan	<p>3</p> <p>Important Causes of Deficit in Balance of Payments</p> <p>1. Economic Factors:</p> <p>(i) Developmental activities:</p> <p>Developing countries depend on developed nations for supply of machines, technology and other equipment. This leads to increased</p>	K/A	M

levels of imports, thereby, resulting in a deficit in the BOP account.

(ii) High rate of inflation:

When there is inflation in the domestic economy, foreign goods become relatively cheaper as compared to domestic goods. It increases imports which causes a deficit in the BOP.

(iii) Cyclical fluctuations:

When the domestic economy is going through a phase of boom, then domestic production may be unable to satisfy the domestic demand. It leads to a deficit in BOP, due to increase in imports.

(iv) Change in Demand:

Fall in demand for country's goods in the foreign markets leads to fall in exports and it adversely affects the balance of payments.

(v) Import of Services:

Underdeveloped countries import services from developed countries for which, they have to pay huge amounts of money. It leads to a deficit in the BOP.

2. Political Factors:

(i) Political Instability:

Political instability may lead to large capital outflows and reduce the inflows of foreign funds, thus, creating disequilibrium in the BOP.

(ii) Political disturbances:

Frequent changes in the government, inadequate support to the government in parliament also discourage inflows of capital. This leads to a deficit due to higher outflows than inflows.

3. Social Factors:

(i) Demonstration Effect:

When the people of underdeveloped countries come in contact with those of advanced countries, they start adopting the foreign pattern of consumption. Due to this reason, their imports increase and it leads to an adverse balance of payments for underdeveloped country.

(ii) Change in tastes, preferences, fashion and trends:

		An unfavorable change for the domestic goods leads to a deficit in the balance of payments.		
28.	What are the major sources of revenue of federal government	The three main sources of federal tax revenue are individual income taxes, payroll taxes, and corporate income taxes. Other sources of tax revenue include excise taxes, the estate tax, and other taxes and fees	K/A	E
29.	What do you understand by “Sahib-e-Nisab” & mustahaqeen.	In Sharia (Islamic Law) niṣāb (نصاب) is the minimum amount that a Muslim must have before being obliged to give zakat . Musataiqaen is the plural of word ‘Mustahiq’. They are the people who are eligible to take zakat according to the Holy Quran and Ahadees.	K/A	M
30.	What are the objectives of economic planning in Pakistan? Explain	Economic planning , the process by which key economic decisions are made or influenced by central governments. Objectives of economic planning in Pakistan are as follow: <ol style="list-style-type: none"> 1. Economic Development 2. Increase Employment 3. Self-Sufficient 4. Economic Stability 5. Social Welfare and Services 6. Regional Development 7. Comprehensive Development 8. To reduce economic Inequalities. 	K/A	E