FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2026 FOR RECRUITMENT TO
POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT

Roll Number

ECONOMICS, PAPER-I

TIME ALLOWED: THREE HOURS	(PART-I MCQs) MAXIMUM MARKS: 20
PART-I (MCQs) : MAXIMUM 30 MINUTES	(PART-II) MAXIMUM MARKS: 80

NOTE: (i) First attempt **PART-I (MCQs)** on separate **OMR Answer Sheet** which shall be taken back after **30 minutes.**
(ii) Overwriting/cutting of the options/answers will not be given credit.
(iii) There is **no negative** marking. All MCQs must be attempted.

PART-I (MCQs)(COMPULSORY)

Q.1. (i) Select the best option/answer and fill in the appropriate Box ■ on the **OMR Answer Sheet.(20x1=20)**
(ii) Answers given anywhere else, other than OMR Answer Sheet, will not be considered.

1. **As long as the principle of diminishing marginal utility is operating, any increased consumption of a good:**
   (A) Lowers total utility (B) Produces negative total utility
   (C) Lowers marginal utility and, therefore, total utility (D) Lowers marginal utility, but may raise total utility
2. **Cardinal utility theory assumes that consumers can:**
   (A) Rank basket of goods as to their preference.
   (B) Determine the number of utils that can be derived from consuming all goods.
   (C) Determine the marginal rate of substitution between goods.
   (D) Avoid the law of diminishing marginal utility.
3. **Suppose that a good has an income elasticity of demand of - 0.2. This means that the good is:**
   (A) Normal (B) Substitute (C) Inferior (D) Complements
4. **Suppose the price Firm XYZ can receive for its output is $15 per unit. The average variable cost of production is $12 per unit. The average total cost of production is $17. In the short run, this firm:**
   (A) Is earning economic profit (B) Should shut down
   (C) Earning zero economic profit (D) Should continue producing
5. **Which of the following is not a characteristic of perfect competition?**
   (A) Sellers offer goods that are largely the same. (B) There are many buyers and sellers.
   (C) There are externalities (D) There is free entry and exit.
6. **The conditions necessary for a firm to be able to price discriminate include:**
   (A) Segmentable markets (B) Differences in price elasticity of demand among the segments
   (C) The inability of customers to transfer products (D) All of these
7. **A monopsony is:**
   (A) The sole supplier of an input (B) The sole supplier of an output
   (C) Th sole buyer of some type of input (D) A unionized industry
8. **Which event shifts the short run aggregate supply curve to the right?**
   (A) A decrease in money supply (B) An increase in government spending on military equipment.
   (C) A decrease in oil prices (D) A decrease in Foreign Direct Investment
9. **Transfer payment is:**
   (A) Payment with no goods exchanged (B) Payment for goods with goods
   (C) Payment for goods with money (D) None of these
10. **Which of the following statements is true about a trade deficit ?**
    (A) Net capital outflow must be positive (B) Net exports are negative
    (C) Exports exceed imports (D) None of these
11. **Which of the following is not a reason why the aggregate demand curve slope downward?**
    (A) The exchange rate effect (B) The classical monetary neutrality effect
    (C) The wealth effect (D) The interest rate effect
12. **Stagflation occurs when the economy experiences:**
    (A) Rising prices and rising outputs (B) Falling prices and rising outputs
    (C) Rising prices and falling outputs (D) Falling prices and falling outputs
13. **With reference to the IS-LM model, an increase in tax rates should shift :**
    (A) IS curve right (B) LM curve up (C) LM curve down (D) IS curve left
14. **What causes the LM curve to shift downward?**
    (A) Expected Inflation declines (B) The money supply declines
    (C) Income increases (D) The money supply increases
15. **A rough measure of the degree of economic interdependence of a nation is given by:**
    (A)The percentage of a nation's imports and exports to its GDP (B) The size of the nation's population
    (C) The percentage of its population to its GDP (D) Per capita GDP

16. **If the nation's tastes for its import commodity increases:**
(A) The nation's terms of trade deteriorate (B) The nation's terms of trade remain unchanged
(C) The partner's terms of trade deteriorate (D) Trade volume of a nation decreases.

17. **If with the increase in income, the percentage of income collected as tax remains constant, tax will be called:** (A) Proportional (B) Neutral (C) Progressive (D) Regressive

18. **The term Economic Growth is explained by:**
(A) Structural changes in the economy (B) Increase in per capita production
(C) Increase in per capita income (D) All of these

19. **What does the equation of exchange in the Quantity Theory of Money equate?**
(A) Total value of purchases to total supply of money
(B) Demand for money to supply of money
(C) Velocity of circulation to total amount of goods and services exchanged for money
(D) Price level to quantity bought

20. **What is the primary focus of the Human Development Approach?**
(A) Economic growth (B) Increasing national wealth
(C) Enlarging people's choices and capabilities (D) Women's empowerment

****

PART-II

NOTE: (i) **Part-II** is to be attempted on the separate **Answer Book.**
(ii) Attempt **ONLY FOUR** questions from **PART-II**. **ALL** questions carry **EQUAL** marks.
(iii) All the parts (if any) of each Question must be attempted at one place instead of at different places.
(iv) Write Q. No. in the Answer Book in accordance with Q. No. in the Q.Paper.
(v) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.
(vi) Extra attempt of any question or any part of the question will not be considered.

Q. No. 2. "Scarcity leads to economic choices." Pick one of the famous principles of economics and explain this concept using a graph. Give an example of an economic decision you made and what you gave up when you made your choice. **(20)**

Q. No. 3. "No monopoly firm can operate at a loss in the long run; this poses a dilemma for the regulatory agency: either it must abandon its goal of marginal cost pricing, or the government must subsidize the monopoly forever, or allow the firms to opt for two tier pricing systems." Discuss this statement with the help of an appropriate diagram of price regulation for a natural monopoly and calculate the profits before and after the price regulation of natural monopolies. **(20)**

Q. No. 4. Define aggregate demand and aggregate supply curves. The long run equilibrium of the economy is found where the aggregate demand curve crosses the long run aggregate supply curve. What will happen to this long run equilibrium when the aggregate supply curve shifts? **(20)**

Q. No. 5. Milton Friedman's Quantity Theory of Money is considered better by some economists than the Keynesian Liquidity Preference Theory. Compare and contrast the theories and justify your view. **(20)**

Q. No. 6. What does the Trade Theory of Comparative Advantage postulate? What factors does this theorem identify as the fundamental determinant of comparative advantage and trade? **(20)**

Q. No. 7. How are the Gini Coefficient and the Lorenz Curve related? Use an example to illustrate how these two can be used as a summary measure of equality and inequality in a nation's distribution of income. **(20)**

Q. No. 8. Write short notes on any **TWO** of the following: **(10 each)** **(20)**

a. Harrod Domar Growth Model
b. Pros and Cons of CPEC
c. Laffer Curve

****