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

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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.
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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

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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)**
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1. In Pakistan, "economic development" is best reflected by:
(A) Only increase in GDP (B) Increase in per capita income with better health and education
(C) Increase in exports only (D) None of these

2. Which indicator is most commonly used to measure the overall development level of Pakistan in UN reports?
(A) GDP deflator (B) Human Development Index (HDI)
(C) Consumer Price Index (CPI) (D) Both (A) & (B)

3. Pakistan's early Five-Year Plans mainly followed which development strategy?
(A) Export-led industrialisation (B) Services sector-only strategy
(C) Both (A) & (B) (D) Import-substitution industrialisation

4. A major objective of economic planning in Pakistan has been to:
(A) Eliminate all imports (B) Reduce inflation
(C) Reduce regional and income inequalities (D) Abolish private property

5. Land reforms in Pakistan were primarily intended to:
(A) Increase land revenue only (B) Concentrate land in a few hands
(C) Reduce large landholdings and protect tenants (D) Abolish small farms

6. In the 1970s, industrial policy in Pakistan was marked by:
(A) Large-scale privatisation of SOEs (B) Nationalisation of key industries and banks
(C) Complete withdrawal of the state from industry (D) None of these

7. A common short-run measure used by Pakistan to correct Balance of Payments problems is:
(A) Increasing foreign exchange reserves through exports only (B) Banning all imports
(C) Fixing the exchange rate permanently (D) Devaluation/depreciation of the rupee

8. Foreign aid to Pakistan is often criticised because it can:
(A) Eliminate structural poverty by fully offsetting domestic resource constraints
(B) Reinforce aid dependence and increase the country's external debt vulnerability
(C) Leave macroeconomic policy formation entirely unaffected by donor conditionalities
(D) None of these

9. A key challenge in Pakistan's energy sector is:
(A) Excess generation capacity with zero losses (B) Imported fuel costs
(C) Both (A) & (B) (D) High transmission and distribution losses and circular debt

10. A major reason for low literacy rates in Pakistan is:
(A) Persistently low public investment in education coupled with systemically poor service delivery
(B) Excess educational infrastructure in rural regions leading to underutilisation
(C) Universal and disproportionately high female participation in formal schooling (D) None of these

11. Which of the following is a major current issue of Pakistan's economy?
(A) Unstable population growth (B) Persistent energy shortages and high inflation
(C) Huge surplus in budget and trade (D) None of these

12. Pakistan's development planning is hindered mainly because of:
(A) Overabundance of skilled planners (B) Weak implementation and project monitoring
(C) Zero political involvement (D) Both (B) & (C)

13. The concept of redistributive justice in Pakistan's development stresses:
(A) Reducing inequalities through fair access to opportunities (B) Increasing tariffs on imports
(C) Expanding foreign borrowing (D) None of these

14. Major cause of rural poverty in Pakistan is:
(A) Excess mechanisation (B) High-tech farming everywhere
(C) Small landholdings and low productivity (D) Both (B) & (C)

15. Industrial development is constrained by:
(A) Very high R&D spending (B) Full competition and zero market failures
(C) Both (A) & (B) (D) Energy shortages and high production costs

16. Nationalisation in 1972-77 led to:
(A) Greater private sector expansion (B) Heavy public sector involvement in banking and industry
(C) Immediate efficiency gains (D) None of these

17. Weak export performance is due to:
(A) Low diversification and reliance on textiles (B) High-value technology exports
(C) Declining global food demand (D) Both (A) & (B)

18. Workers' remittances matter because they:
(A) Increase public sector employment (B) Improve current account and support consumption
(C) Reduce money supply (D) None of these

19. FDI inflows remain low due to:
(A) Very low returns (B) Policy uncertainty and security concerns
(C) Excess skilled labor (D) Both (B) & (C)

20. Inflation in Pakistan is often driven by:
(A) Very low money supply (B) Falling global commodity prices
(C) Currency depreciation, supply shocks and energy prices (D) Both (A) & (C)

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PART-II

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Q. No. 2. Evaluate how corruption, rent-seeking, and weak regulatory frameworks distort economic incentives in Pakistan. Illustrate with examples how these distortions affect investment climate, tax collection, and public expenditure efficiency. **(20)**

Q. No. 3. Describe major changes in Pakistan's agricultural policies from 1950 to the present. How have land reforms, Green Revolution strategies, and rural development programmes shaped agricultural growth and inequality? **(20)**

Q. No. 4. Explain the evolution of industrial policy in Pakistan. Discuss nationalisation, the rise of development finance institutions, and the shift towards export-led growth, evaluating their impact on industrial performance. **(20)**

Q. No. 5. Analyse how Pakistan's export structure, import dependence, and foreign aid flows affect its long-term economic development. What policy changes are needed to reduce external vulnerability? **(20)**

Q. No. 6. Critically examine the unemployment situation in Pakistan. Why has the unemployment rate remained high despite various policy initiatives? Discuss with evidence and provide recommendations. **(20)**

Q. No. 7. Climate change has become a macro development challenge for countries like Pakistan. Explain how environmental degradation affects economic growth, poverty, and long-term productivity. Suggest policy options that align environmental sustainability with development objectives. **(20)**

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

a. Agrarian Structure and Underdevelopment in Pakistan

b. Role of Foreign Aid in Pakistan's Economic Development

c. Government Finance and Public Sector Governance in Pakistan

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