

Second Year Economics (F.A/ICS)

Chapter wise Important Short Questions

CHAPTER 1: NATIONAL INCOME

1. Define national income?

It is the total value of all final goods and services produced by a country's residents in one year. It shows the earning capacity of a nation. It includes wages, rent, interest, and profit.

2. Define national accounting?

National accounting is the process of estimating national income of a country.

3. Define GDP?

Gross Domestic Product is the total value of final goods and services produced within a country's borders in one year. It does not include income from abroad. It measures domestic production.

4. Define GNP?

Gross National Product is the total value of final goods and services produced by a country's residents, whether within the country or abroad. It includes net income from abroad. It reflects the economic strength of nationals.

5. Define NNP?

Net National Product is GNP minus depreciation (wear and tear of capital). It shows the actual value of output after maintenance costs. It is a more accurate measure of national income.

6. Define NI?

National Income is the NNP at factor cost. It includes all incomes earned by citizens such as wages, rent, interest, and profits. It excludes indirect taxes and includes subsidies.

7. What is the difference between PI and DI?

Personal Income is total income received before taxes, while Disposable Income is what remains after taxes. PI includes transfer payments. DI shows actual spending power.

8. Define per capita Income?

It is National Income divided by the population. It shows average income per person. It is used to compare living standards.

9. Differentiate between real flow and money flow?

Real flow means exchange of goods and services, while money flow means income and expenditure. Real flow is physical; money flow is financial. Both occur simultaneously in the economy.

10. Define product method, income method and expenditure method?

Product Method: The product method, also called the value-added method, measures national income by calculating the total value of all final goods and services produced within a country during a year.

Income Method: The income method measures national income by adding up all the factor incomes earned in the production of goods and services within a country during a year. This includes wages and salaries, rent, interest, and profits.

Expenditure Method: The expenditure method measures national income by adding up all final expenditures made on goods and services during a year. It includes consumption expenditure, investment, government expenditure, and net exports (exports – imports).

CHAPTER 2: EQUILIBRIUM OF NATIONAL INCOME

1. What is the difference between consumption and saving?

Consumption: It means the part of income that households spend on goods and services to

satisfy their needs and wants. It includes spending on food, clothing, housing, health, education, transport, and other necessities or comforts.

Saving: It means the part of income that is not spent on current consumption but kept aside for future use. It can be held as cash, deposited in banks, invested in business, or used to buy assets.

2. Differentiate between propensity to consume and propensity to save?

Propensity to consume: It refers to the tendency of people to spend a part of their income on consumption. It shows the relationship between income and consumption expenditure.

Propensity to save: It refers to the tendency of people to save a part of their income instead of spending it. It shows the relationship between income and savings.

3. Define investment?

Investment is spending on capital goods like machinery and buildings. It boosts future production. It can be public or private.

4. Differentiate between autonomous investment and induced investment?

Autonomous investment is independent of income levels, like government spending.

Induced investment depends on income levels and business profits. Both affect economic growth.

5. Differentiate between average propensity to consume and marginal propensity to consume?

Average Propensity to Consume (APC): The ratio of total consumption to total income.

$$APC = C/Y$$

Marginal Propensity to Consume (MPC): The change in consumption due to a change in income.

$$MPC = \Delta C / \Delta Y$$

6. Differentiate between average propensity to save and marginal propensity to consume?

Average Propensity to save (APS): The ratio of total saving to total income.

$$APS = S/Y$$

Marginal Propensity to save (MPS): The change in saving due to a change in income.

$$MPS = \Delta S / \Delta Y$$

CHAPTER 3: MONEY

1. Define money?

Money: Money is anything generally accepted as a medium of exchange. It facilitates buying, selling, and saving. It includes coins, notes, and digital money.

2. Define Transaction, Speculative & Precautionary Demand for money?

Transaction demand for money: This is the demand for money to carry out day-to-day transactions of buying goods and services.

Speculative demand for money: This is the demand for money as a store of wealth to take advantage of future changes in interest rates or bond prices

Precautionary demand for money: This is the demand for money to meet unexpected or emergency expenses.

3. Define Stock Market?

A stock market is a marketplace where shares of companies are bought and sold. It provides a platform for businesses to raise capital and for investors to invest and earn profits. The stock market reflects the overall performance of an economy.

4. Define Cheque, Credit Card, Debit Card, Mobile Money and Bill of Exchange?

Cheque: A cheque is a written order by an account holder to a bank, instructing it to pay a specific amount of money to a person or organization.

Credit Card: A credit card allows people to borrow money from a bank up to a certain limit to make purchases or withdraw cash, with the promise to repay later (often with interest).

Debit Card: A debit card is directly linked to a person's bank account. It allows the holder to withdraw money or make payments, and the amount is immediately deducted from their account.

Mobile Money: Mobile money is a digital service that allows people to store, send, and receive money using their mobile phones without needing a bank account.

Bill of Exchange: A bill of exchange is a written order by one party to another, requiring the payment of a specific amount either on demand or at a fixed future date. It is widely used in trade and credit transactions.

5. Define Sukuk?

Sukuk are Islamic financial certificates similar to bonds but compliant with Shariah law. Instead of earning interest (which is prohibited in Islam), sukuk holders earn profits from investments in tangible assets, projects, or businesses.

6. What is the difference between Money Market and Capital Market?

Money market: It is the financial market where short-term funds (less than one year) are borrowed and lent. It deals with highly liquid and safe instruments.

Capital market: It is the financial market where long-term funds (more than one year) are raised and invested. It helps businesses and governments finance long-term projects and investments.

7. What is barter system?

It is the exchange of goods and services without using money. It requires double coincidence of wants. It was used before money existed.

8. Write down two difficulties of barter system?

Two Difficulties of Barter:

- No common measure of value, making exchange complex.
- Lack of double coincidence of wants. These issues led to the evolution of money.

9. Define standard of deferred payment?

Money is used to settle future payments in contracts and loans. It facilitates borrowing and lending. It adds trust in transactions.

10. Write down two dynamic functions of money?

- Promotes investment and economic growth.
- Acts as a medium for saving and future use.
- It boosts economic activity.

11. What is the difference between credit money and fiat money?

Credit money: It is the type of money that is accepted as payment but represents only a promise to pay in the future.

Fiat money: It is the type of money that has no intrinsic value but is declared by the government as legal tender.

12. What is commodity money?

Money that has intrinsic value like gold or silver. It can be used directly or exchanged. It existed before paper money.

13. Differentiate between token money and paper money?

Token money: The type which has face value greater than its material value is called token money.

Paper money: It is printed currency with legal backing. Both are used for daily transactions.

14. What is legal tender?

Money that must be accepted by law to settle debts. It includes coins and notes issued by the central bank. Refusal is punishable by law.

15. Define Near Money?

Assets like savings accounts or treasury bills that are not actual money but can be quickly converted into cash. They support liquidity. They are not directly used for transactions.

16. Write down Advantages and Disadvantages of Paper Money?

Advantages:

- Paper money is light, easy to carry, and more convenient than metal coins or barter.
- It can be easily increased or decreased by the central bank according to the needs of the economy.

Disadvantages:

- If the government prints too much paper money, it leads to inflation and loss of value.
- Unlike gold or silver, paper money has no value of its own; its value depends entirely on public trust.

17. What is Supply of Money?

The supply of money refers to the total amount of money available in an economy at a given time for use in transactions and investments. It includes currency held by the public (notes and coins) and demand deposits in banks (like checking accounts).

18. What is Demand for Money?

Demand for money is actually desire to hold money for transactions and future use. It depends on income level, interest rate, and price level. It affects monetary policy.

19. Define Keynes' View of Demand for Money?

He classified demand into three motives – transactions, precautionary, and speculative. People hold money for different purposes. It links money demand to interest and income.

20. Define near money?

Near money are assets like savings accounts or treasury bills that are not actual money but can be quickly converted into cash. They support liquidity. They are not directly used for transactions.

CHAPTER 4: VALUE OF MONEY

1. Define quantity theory of money?

The Quantity Theory of Money states that the general price level in an economy is directly proportional to the quantity of money in circulation, if output remains constant.

$$MV=PT$$

Where M = Money supply, V = Velocity of money, P = Price level, T = Transactions

2. Define inflation?

Inflation is the sustained rise in the general price level of goods and services in an economy over time, which reduces the purchasing power of money.

3. What is demand pull inflation and cost push inflation?

Demand-Pull Inflation: Inflation caused by an increase in aggregate demand when demand exceeds supply. (Too much money chasing too few goods).

Cost-Push Inflation: Inflation caused by an increase in production costs (e.g., higher wages, raw material prices, or taxes) which raises overall prices.

4. Write down two positive and two negative effects of inflation?

Positive Effects:

- 1. Encourages production and investment due to higher profits.**
- 2. Reduces the real burden of public debt.**

Negative Effects:

- 1. Reduces purchasing power of people with fixed incomes.**
- 2. Creates uncertainty in business and discourages savings.**

5. What is deflation?

Deflation is the persistent fall in the general price level of goods and services in an economy, usually caused by weak demand, leading to reduced production and unemployment.

6. Define hyperinflation?

Hyperinflation is an extremely rapid and uncontrollable rise in the price level, where money loses its value drastically, often above 50% per month.

CHAPTER 5: BANKS

1. Define bank?

A bank is a financial institution that accepts deposits from the public and provides loans and other financial services. It acts as an intermediary between savers and borrowers

2. What is the difference between central bank and commercial bank?

Central Bank: The main authority that controls the supply of money, issues currency, and regulates the banking system of a country. Example: State Bank of Pakistan.

Commercial Bank: A financial institution that accepts deposits and provides loans to individuals and businesses for profit. Example: HBL, UBL, MCB.

3. Write down three functions of commercial banks?

- Accepting deposits from the public.
- Providing loans and advances.
- Facilitating payments through cheques, debit/credit cards, and online transfers.

4. Define credit creation?

Credit creation is the process by which commercial banks create money by lending more than the actual cash deposits they receive, using the system of fractional reserves.

5. Define musharakah and murabah?

Musharakah: Losses are not shared according to any agreed ratio. They are shared **according to each partner's capital contribution**. Profits may be distributed according to an agreed ratio.

Murabaha: An Islamic financing method where a bank buys goods and sells them to the client at a cost-plus profit price, with payment usually in installments.

6. Differentiate between ijarah and mudarabah?

Ijarah: An Islamic leasing contract where the bank buys an asset and leases it to the client for a fixed rental payment. Ownership remains with the bank.

Mudarabah: A partnership where one party provides capital and the other provides management skills. Profits are shared, but losses are borne only by the capital provider.

7. Write down three functions of central banks?

- Issuing currency notes.
- Controlling monetary policy and money supply.
- Regulating and supervising commercial banks.

8. Define monetary policy?

Monetary policy is the policy adopted by the central bank to control the supply of money, interest rates, and credit in order to achieve economic objectives such as price stability, growth, and employment.

CHAPTER 6: PUBLIC FINANCE

1. Define public finance?

Public finance is the branch of economics that studies the income (revenue) and expenditure of the government and its impact on the economy. It deals with taxation, public spending, budgeting, and debt management.

2. Differentiate between public finance and private finance?

Public Finance: It is concerned with government revenues and expenditures for public welfare. Its aim is social benefit.

Private Finance: It is concerned with the income and spending of individuals or businesses. Its

aim is personal or private profit.

3. Write down sources of revenue of government?

There are following some resources of revenue of the government:

- Taxes (direct and indirect).
- Non-tax revenues (fees, fines, licenses).
- Income from public enterprises.
- Borrowing (domestic and foreign loans).
- Grants and aid.

4. Differentiate between current expenditure and capital expenditures?

Current Expenditure: It is basically Day-to-day expenses of the government such as salaries, pensions, maintenance, subsidies, and interest payments.

Capital Expenditure: These are Long-term development expenses like building roads, dams, schools, hospitals, and infrastructure projects.

5. Write down four canons/principles of taxation?

Canon of Equality: Taxes should be based on ability to pay.

Canon of Certainty: The taxpayer should know how much, when, and how to pay.

Canon of Convenience: The method of payment should be easy for taxpayers.

Canon of Economy: Collection cost should be low compared to the revenue raised.

6. Differentiate between direct taxes and indirect taxes?

Direct Taxes: Paid directly by individuals or firms to the government. The burden cannot be shifted. Example: Income tax, wealth tax.

Indirect Taxes: Levied on goods and services, collected by sellers, but the burden is shifted to consumers Example: Sales tax, excise duty.

7. Differentiate between proportional and progressive taxation?

Proportional Taxation: the type of tax in which the tax rate remains the same regardless of income is called proportional tax. Example: 10% tax on all incomes.

Progressive Taxation: The type of tax in which tax rate increases as income increases. Example: 10% on low incomes, 20% on middle, 30% on high incomes.

8. Define tax culture?

Tax culture refers to the attitude, awareness, and willingness of people to pay taxes honestly and regularly. It reflects public trust in the tax system and government institutions.

9. Define budget?

Budget is the statement showing estimates of the income and expenditure positions of the government in a particular financial year

10. What is budget deficit?

If the estimated income during the year becomes less than the expenditure so it is called budget deficit.

11. Define balanced budget?

If the estimated income during the year equals to the expenditure so it is called balanced budget.

12. What is surplus budget?

If the estimated income during the year becomes more than the expenditure so it is called budget surplus.

13. What is fiscal policy?

The government policy regarding to taxes, public revenue, public expenditures, government borrowing to influence the situation about inflation, employment and economic growth is called fiscal policy.

CHAPTER 7: INTERNATIONAL TRADE

1. Define international trade?

International trade is the exchange of goods and services between different countries. It allows nations to obtain products they cannot produce efficiently themselves.

2. What is the difference between domestic and international trade?

Domestic Trade: Trade of goods and services within a single country, using the same currency and laws is called domestic trade

International Trade: Trade between two or more countries, involving different currencies, laws, and trade barriers is called international trade

3. Write down two advantages and disadvantages of international trade?

Advantages:

1. It allows countries to specialize in what they produce best.
2. It provides consumers with a greater variety of goods and services.

Disadvantages:

1. It can create dependence on foreign countries.
2. It may harm domestic industries due to foreign competition.

4. What is theory of comparative advantage?

The theory of comparative advantage (by David Ricardo) states that countries should specialize in producing goods in which they have the lowest opportunity cost, and trade with others, to maximize global efficiency and welfare.

5. Define terms of trade?

Terms of trade (TOT) is the ratio between a country's export prices and its import prices.

$TOT = \text{Index of Export Prices} / \text{index of import prices} * 100$

6. State modern state theory?

The modern theory (Heckscher–Ohlin theory) states that international trade arises because countries have different factor endowments (land, labor, capital). Country exports goods that use its abundant factors intensively and imports goods that require scarce factors.

7. What is free trade?

Free trade is the exchange of goods and services between countries without tariffs, quotas, or other trade restrictions.

8. Define protection of trade?

Protection of trade refers to government policies such as tariffs, quotas, or subsidies used to restrict imports and protect domestic industries from foreign competition.

9. What is WTO? Also write down two functions?

The World Trade Organization (WTO) is an international body established in 1995 to regulate and promote free trade among nations.

Two Functions:

1. To implement and monitor trade agreements between member countries.
2. To resolve trade disputes through a legal and institutional framework.

10. Define globalization?

Globalization is the process of increasing interconnectedness among countries through trade, investment, technology, culture, and communication.

11. Define transnational corporations (TNC)?

TNCs are large companies that operate in multiple countries, managing production and business activities across borders. Example: Coca-Cola, Nestlé, Toyota.

CHAPTER 8: BALANCE OF PAYMENT

1. Define balance of payments?

The balance of payments is a record of all economic transactions made between residents of a country and the rest of the world during a specific period. It includes trade in goods, services,

capital flows, and financial transfers.

2. What is the difference between balance of payment and balance of trade?

Balance of Payments (BOP): A comprehensive record of all international transactions (goods, services, investments, and transfers) is called balance of payments (BOP).

Balance of Trade (BOT): Only the difference between the value of a country's exports and imports of goods (visible trade) is called balance of trade.

3. Differentiate between visible items and invisible items?

Visible Items: Tangible goods that can be seen, touched, and measured in trade are called visible items (e.g., cars, machinery, textiles).

Invisible Items: Intangible services and financial transactions are called invisible items (e.g., banking, insurance, tourism, remittances).

4. What is current account, capital account and financial account?

Current Account: The balance of current account relates only to current transactions of goods and services

Capital Account: In capital account the movement of capital in and out of the country are recorded

Financial account: Financial account mostly includes foreign direct investment and long term loans

5. Define exchange rate?

The exchange rate is the price of one country's currency expressed in terms of another country's currency.

Example: 1 US Dollar = 280 Pakistani Rupees.

6. Differentiate between fixed and floating exchange rate?

Fixed Exchange Rate: The government or central bank fixes the currency value and maintains it through intervention.

Floating Exchange Rate: It determined by the demand and supply of currencies in the foreign exchange market without government control.

7. What is the difference between depreciation and devaluation?

Depreciation: A fall in the value of a currency under a floating exchange rate, determined by market forces.

Devaluation: A deliberate reduction in the value of a currency by the government under a fixed exchange rate system.

CHAPTER 9: INTRODUCTION TO PAKISTAN ECONOMY

1. Write down three fundamental weaknesses of Pakistan economy?

- Low tax to GDP ratio and insufficient tax collection
- Poor saving rates
- Stagnant exports, trade gap and fast rising foreign debt
- Fast growing population

2. Write down three major sectors of Pakistan economy?

Following are the three major sectors of Pakistan economy:

Agriculture Sector: It includes crops, livestock, forestry and fisheries etc.

Industrial Sector: It includes manufacturing, mining, construction and energy etc.

Services Sector: It includes trade, transport, banking and education etc.

3. Define small and medium enterprises (SMEs)?

SMEs are businesses that operate on a small or medium scale, with limited employees, assets, and turnover compared to large firms. They play a vital role in employment generation, innovation, and economic growth.

4. Define SMEDA?

SMEDA stands for small and medium enterprises development authority which control and promote SME sector.

5. Define green energy?

Green energy refers to energy produced from renewable and environmentally friendly sources that do not harm the planet. It reduces pollution and carbon emissions.

6. Write down three problems and solution of health sector?

Problems:

1. Lack of quality hospitals and medical staff.
2. Inadequate health budget and infrastructure.
3. High cost of medicines and treatment.

Solutions:

1. Increase government spending on healthcare.
2. Train and hire more doctors, nurses, and paramedics.
3. Provide affordable medicines and expand health insurance programs.

7. What is the difference between CNG and LPG?

CNG (Compressed Natural Gas): Made mainly of methane, stored at very high pressure, commonly used in vehicles as an alternative to petrol/diesel.

LPG (Liquefied Petroleum Gas): Made of propane and butane, stored in liquid form at low pressure, widely used for cooking, heating, and sometimes vehicles.

CHAPTER 10: NATIONAL INCOME OF PAKISTAN

1. Define per capita income?

Per capita income is the average income of a person in a country. It is calculated by dividing the national income (GDP) by the total population.

2. Write down three causes of per capita income in Pakistan?

High Population Growth – More people reduce the average income per person.

Low Industrial and Agricultural Productivity – Weak output keeps incomes low.

Unemployment and Underemployment – Many people do not earn enough income.

3. Write down two causes of low saving in Pakistan?

Low Incomes – people spend most of their income on basic needs, leaving little to save.

High Inflation – rising prices reduce purchasing power, discouraging savings.

4. what is growth rate?

Growth rate of any country means percentage annual increase in gross domestic product (GDP) of a country. Pakistan's GDP is increasing in real terms.

5. Differentiate between national income at current prices and national income at constant prices?

The estimates of national income for a year is made by using prices of the same year is called national income at current prices. On the other hand, to eliminate the effect of changes in prices and to see how far the physical output of a commodities has increased over the year, the national income is estimated at constant prices.

6. What is the sector wise break-up of Pakistan?

Pakistan's economy has great structural changes and there are following two sectors in GDP which are further divided in sub sectors:

- Commodity sector (48%)
- Services sector (52%)

7. What are the difficulties of measurement of national income of Pakistan?

There are following some difficulties of measurement of national income of Pakistan:

- Non marketed production
- Barter Transactions

- Government Expenditures
- Illiteracy
- Lack of Specialization

8. How can Pakistan increase national income or per capita income?

There are following some points that can increase Pakistan's national income or per capita income:

- Will and determination\
- Population control
- Rising labor productivity through education and technical trainings
- Modernization of agriculture
- Industrial development
- Employment of surplus labor

9. Write down four causes of low saving in Pakistan?

There are following causes of low savings in Pakistan:

- Low income
- Consumption oriented society\
- Fast population growth
- Wastage of public money
- Social evils

CHAPTER 11: ECONOMIC DEVELOPMENT AND PLANNING

1. What is economic development?

Economic development means the sustained improvement in the living standards of people. It includes growth in income, better health, education, infrastructure, and reduction of poverty.

2. What is the definition of economic development according of Meier and Baldwin?

According to Meier and Baldwin, economic development is a process where by an economy's real national income increases over a long period of time.

3. What is underemployment?

Underemployment means a situation where people are working below their skills, education, or capacity, or they work part-time when they want full-time jobs. Example: A graduate working as a laborer.

4. Define Business Cycle?

The fluctuations of rise and fall in national production and employment level over long period of time are called business cycle

5. Define economic planning? Also write down two objectives of economic planning?

Economic Planning is the process in which the government makes policies, programs, and strategies to utilize resources effectively for the development of the country.

Two objectives of economic planning are:

- 1. To achieve higher economic growth.**
- 2. To reduce poverty and unemployment.**

6. Write down three objectives of the eighth five-year plan of Pakistan?

Three objectives of 8th five-year plan of Pakistan are as followed:

- Achieve a high growth rate of GNP
- Create new employment opportunities
- Achieve economic stability

7. What is PSDP?

PSDP stands for Public Sector Development Program. It is the government's budget plan for development projects like roads, dams, health, and education.

8. Define CPEC?

CPEC stands for China-Pakistan Economic Corridor. It is a major development project between Pakistan and China that includes roads, railways, energy projects, and trade routes to connect Gwadar Port with China and other regions.

CHAPTER 12: TRANSPORT, COMMUNICATIONS AND HUMAN

RESOURCES

1. Define public private partnership?

Public-Private Partnership is a cooperation between government and private sector to finance, build, and manage projects such as roads, hospitals, or schools for public benefit.

2. What is the importance of telecommunication?

Telecommunication is important because it connects people and businesses, improves trade, education, and health services, and supports economic growth by providing fast communication and digital services.

3. What are the problems of road transportation?

- Road density of Pakistan is low
- Quality of roads in Pakistan is poor and maintenance inadequate
- Rural network of roads is in poor condition
- Old vehicles cause pollution

4. What are the problems of Pakistan's railways?

- Old worn out tracks
- Shortage of engine locomotives
- Deterioration in service management
- Lack of timeliness

5. Define civil aviation?

Civil aviation plays an important role in the development of a country's economy by providing fast and efficient access between different parts of countries.

6. Define human resources?

Human resources of a country include total labor supply along with their education, training, experience, discipline and motivation for work

7. What is labor?

Labor means all human efforts of body and mind which are undertaken for material reward

8. Define efficiency/productivity of labor?

Efficiency of labor is basically the productive capacity of labor. A worker can do more and better work than others, we say that his efficiency and productivity is higher

9. What is mobility of labor?

Mobility of labor is the ability and capacity of a laborer to changes over a new job, new position or shift to a different place of a work without much difficulty

10. Write down different types of mobility of labor?

- Geographical mobility
- Occupational mobility
- Horizontal mobility
- Vertical mobility
- Social mobility

11. What are the problems of overpopulation in Pakistan?

- Per capita income is low
- Cultivated area per head is decreased
- Literacy rate is low
- Prices are rising
- Corruption and crime rates increase

12. Define labor force?

Total size of working population of a country is called labor force. It is estimated by excluding children, old people and other dependents from the total population of a country

13. What is unemployment?

Unemployment is a situation where an able-bodied person seeks a job but is unable to find one at current wage rate.

14. Write down some causes and solutions of unemployment in Pakistan?

- Rapid population growth
- Poverty
- Scarcity of capital
- Slow industrial development
- Imbalance in education

15. Define productivity of labor?

Productivity of labor means the output produced by a worker in a given time. Higher productivity means more goods or services are produced with the same effort.

16. What is mobility of labor?

Mobility of labor refers to the ability of workers to move from one job, occupation, or region to another. It can be geographical mobility (moving location) or occupational mobility (changing type of job).

17. Define labor force?

Labor force is the total number of people who are willing and able to work. It includes both employed and unemployed persons but excludes children, elderly, and non-working people.

CHAPTER 13: BANKING IN PAKISTAN

1. Differentiate between nationalization and privatization?

Nationalization: Transfer of ownership of industries/businesses from private sector to government control is termed as nationalization

Privatization: Transfer of ownership of industries/businesses from government control to private sector is termed as privatization

2. What is the importance of bank?

Banks are important because of following reasons:

- Collect savings
- They provide loans
- They create credit
- They support trade
- Ensure smooth flow of money in the economy

3. What is e banking?

E banking is basically defined as the online banking and use of ATM Cards, debit cards, credit cards and smart cards.

4. Differentiate between development loans and production loans?

Development loans are the type of loans that are used for the developmental purposes for example, farm machinery, irrigation etc. whereas the production loans are for production purpose and it include all farm inputs, seeds, fertilizers and pesticides

5. Define branchless banking?

Branchless banking is the cheaper alternate to conventional branch base banking. Under this system the networking agents mostly operating in retail markets using mobile phones to pay utility bills and transfer money

6. Define open market operations?

Open market operations are defined as the sales and purchase of government securities for the regulation of money supply in a country

7. Define policy rate?

It is the rate at which state bank discounts bills (treasury bills etc.) presented by other banks. It is actually a rate of interest charged by central bank on its loans to other banks

8. What is reserve requirement?

Commercial banks under the law, keep a fixed minimum percentage of their deposit with the state bank as a reserve. This is called reserve requirement

9. Define liquidity ratio?

It is also called statutory liquidity ratio (SLR) which means the percentage of deposits that commercial banks must maintain in liquid assets

10. Differentiate between money market and capital market?

Money market is the financial market in which short term loans provided where as capital market is the financial market in which long term loans are contracted o shares of corporate firms are brought and sold

11. State national bank of Pakistan?

National Bank of Pakistan (NBP) is a state-owned commercial bank, established in 1949. It provides banking services, trade financing and government transactions.

12. Define microfinance banks?

Microfinance banks are banks that provide small loans, savings, and other financial services to low-income individuals and small businesses who cannot access traditional banking.

13. What is khushali bank?

Khushhali Bank is the first microfinance bank of Pakistan, established in 2000 to provide loans and financial services to the poor for reducing poverty.

14. Write down three functions of state bank of Pakistan?

Following are three functions of state bank of Pakistan

- Issues currency.
- Controls monetary policy.
- Regulates and supervises commercial banks.

15. Write down instruments of monetary policy?

Quantitative tools: It include Bank rate, open market operations and reserve requirements.

Qualitative tools: It include Credit rationing, consumer credit control and margin requirements.

16. Define inflation?

Inflation is the continuous rise in the general price level of goods and services in an economy.

17. What is the difference between cost push inflation and demand-pull inflation?

Cost-Push Inflation: The type of inflation in which prices rise due to increased production costs (wages, raw materials, oil prices) is called cost-push inflation

Demand-Pull Inflation: The type of inflation in which prices rise because demand is greater than supply is called demand-pull inflation

18. Define stock market?

Stock market is a place where shares, bonds, and securities are bought and sold between investors.

19. What are insurance companies?

Insurance is a contract that transfers the financial risk of a specified loss from an individual or organization (the insured) to a company (the insurer) in exchange for a payment (the premium). It converts uncertain, potentially large losses into predictable, manageable costs by pooling many policyholders' premiums to pay the claims of the few who suffer covered losses

20. Define takaful?

Takaful is an Islamic system of insurance based on mutual cooperation, solidarity, and risk-sharing, following Shariah principles.

CHAPTER 14: PUBLIC FINANCE IN PAKISTAN

1. Differentiate between direct taxes and indirect taxes?

Direct Taxes: Paid directly to the government by the person on whom it is imposed.

Example: Income tax, property tax.

Indirect Taxes: Paid through goods and services; burden can be shifted to others.

Example: Sales tax, excise duty.

2. What are capital receipts?

Capital receipts are the receipts which either create liabilities or reduce assets of the government.

Examples: Borrowing, recovery of loans, disinvestment.

3. Define budget?

A budget is a financial plan of the government showing estimated income (revenue) and expenditure for a specific period, usually one year.

4. Differentiate between revenue receipts and capital receipts?

Revenue receipts contain the details of revenue from tax and non-tax sources of federal government whereas capital receipts contain the estimated income of the capital nature

5. Differentiate between current expenditure and development expenditure?

Current expenditures include expenditures of civil administration, economic and social services, defense, debt services and grant to provinces whereas development expenditure is the part of expenditure allocated for new and running projects and schemes

6. What is development budget (PSDP)?

The public sector development program is the main instrument for achieving macroeconomic and development objectives set by the government

7. What are the general features of tax system in Pakistan?

Pakistan's tax system has three tier systems which are describe as followed:

- Central taxes
- Provincial taxes
- Local taxes

8. Write down two merits and to m=demerits of tax system in Pakistan?

Merits:

- It is flexible in nature
- It is simple
- It is expanding

Demerits:

- Narrow tax base
- Tax GDP ratio is small

9. What is the difference between zakat and Usher?

Zakat: An obligatory charity, usually 2.5% of wealth and savings of a Muslim in a year is called Zakat

Usher: A form of Zakat on agricultural produce, usually 10% on rain-fed land and 5% on irrigated land is called ushr

CHAPTER 15: FOREIGN TRADE OF PAKISTAN

1. Write down major exports of Pakistan?

The main exports of Pakistan include:

- Textiles and garments
- Rice
- Leather goods
- Sports goods (like footballs)

- Surgical instruments

2. Write down major imports of Pakistan?

The main imports of Pakistan include:

- Petroleum and petroleum products
- Machinery and electronics
- Chemicals and fertilizers
- Edible oil and tea
- Vehicles

3. Write down major importers of Pakistan?

- China
- UAE
- USA
- Saudi Arabia
- Kuwait

4. Write down major exporters of Pakistan?

- USA
- China
- UAE
- Afghanistan
- UK
- Germany

5. Define terms of trade (TOT)?

Terms of Trade (TOT) refers to the ratio between the prices of a country's exports and the prices of its imports.

- If export prices rise compared to import prices, TOT improves.
- If import prices rise compared to export prices, TOT worsens.

CHAPTER 16: BALANCE OF PAYMENT OF PAKISTAN

1. Define remittances?

Remittances are the money that workers send back to their home country from abroad, usually to support their families.

For Pakistan, remittances play a vital role in reducing poverty, improving living standards, and supporting balance of payments.

2. Write down some causes of disequilibrium in Pakistan's balance of payment?

- Limited export capacity
- Unrestricted import needs

3. Differentiate between tariff and quota?

A quota normally limits the quantity of goods that may be **imported**, not "imported and exported."

4. What is foreign direct investment?

Foreign direct investment is the type of investment in which a company invests in a business and project in another country often bringing in capital, technology and expertise

CHAPTER 17: ECONOMIC SYSTEMS

1. Define economic system?

An economic system is the way a country organizes the production, distribution, and consumption of goods and services. It determines how resources are used and how income is shared among people.

2. Define capitalism?

Capitalism is an economic system where resources and businesses are mostly owned by private

individuals. Prices and production are determined by demand and supply in the market, and people are free to earn profits.

3. Define socialism?

Socialism is an economic system where most resources and industries are owned and controlled by the government or the community. The main goal is equal distribution of wealth and to reduce the gap between rich and poor.

4. Define Islamic economic system?

The Islamic economic system is based on the principles of Islam. It avoids interest (Riba), promotes profit and loss sharing, encourages zakat (charity), and ensures fairness, justice, and welfare in economic activities.

5. What is Islamic economy?

The Islamic economy refers to all economic activities carried out according to Shariah (Islamic law). It ensures halal (lawful) trade, prohibits exploitation, and focuses on social justice, equity, and the well-being of society.

LONG QUESTIONS

CHAPTER 1

- 1. Write down different concepts of national income? (Imp)**
- 2. Write a detail note on circular flow of national income? (Imp)**
- 3. Write down three methods of measurement of national income?**

CHAPTER 2

- 1. Write a detail note on equilibrium of national income?**

CHAPTER 3

- 1. What is barter system? Write down difficulties of barter system? (Imp)**
- 2. What are the functions of money?**
- 3. Write a detail note on demand of money?**

CHAPTER 4

- 1. Write a detail note on quantity theory of money? (Imp)**
- 2. Write down adverse and favorable effects of inflation? (Imp)**

CHAPTER 5

- 1. Write a detail note on functions of commercial banks? (Imp)**
- 2. What is credit creation? Write down a detail note on it?**
- 3. Write down different major modes of Islamic banking system?**
- 4. Write a detail note on the functions of central bank? (Imp)**

CHAPTER 6

- 1. Differentiate between public and private finance?**
- 2. Write a detail note on cannons/principles of taxation? (Imp)**

CHAPTER 7

- 1. What are the advantages and disadvantages of international trade? (Imp)**
- 2. Write a detail note on comparative advantage theory?**

CHAPTER 9

- 1. What are the problems and solutions of agricultural sector in Pakistan? (Imp)**

2. Write a detail note on industrial sector in Pakistan?
3. Compare the problems and solutions of education and health sector in Pakistan?

CHAPTER 10

1. Write down causes and solutions of low per capita income in Pakistan? /Write down causes and solutions of low savings in Pakistan?

CHAPTER 11

1. What are the problems and solutions of developing economies?

CHAPTER 12

1. Write a detail note on the importance of transport sector in Pakistan? (Imp)
2. What is the importance of telecommunication?
3. What are the causes of unemployment in Pakistan? Also write down its solutions.

CHAPTER 13

1. Write a detail note on the functions of state bank of Pakistan?

CHAPTER 17

1. Write a detail note on economic systems of Pakistan?