Instruction: Attempt any Five Questions. All questions carry equal marks. Extra Attempt of any Question will not be considered.

Question No. 1

Show with the help of indifference curves how a consumer reaches equilibrium?

Question No. 2

Explain the determination of price and output under Monopolistic competition in the short run and long run.

Question No. 3

Critically examine the Marginal Productivity Theory of Distribution.

Question No. 4

Describe the importance of Zakat and Usher.

Question No. 5

How can NATIONAL INCOME of a country be measured.

Question No. 6

Given the total cost function of a firm: $TC=85+ 15Q-2Q^2+2Q^3$

Find:

(i) Marginal Cost Function.
(ii) (ii) Slope of MC
(iii) (iii) Stope of AVC
(iv) (iv) Is this a short run cost function?

Question No. 7

Critically examine the Ricardian Theory of Rent.

Question No. 8

Define and explain the following:

(i) Price Elasticity of Demand.
(ii) Income Elasticity of Demand.
(iii) Cross Elasticity of Demand.
(iv) Point Elasticity of Demand.

See Guideline/Hints for each question on next page.

Guideline/Hints for each question

Question 1: Consumer Equilibrium Using Indifference Curves

- Define **consumer equilibrium** as the point where the **budget line** is tangent to an **indifference curve**.
- Explain the **conditions for equilibrium**:
  - **Slope of indifference curve (MRS) = Slope of budget line (Price ratio)**
- **Illustrate with a diagram** showing indifference curves and the budget line.

Question 2: Price & Output Determination Under Monopolistic Competition

- Define **monopolistic competition** (many sellers, differentiated products).
- **Short-run equilibrium:** Firms may earn **supernormal profits or losses** (MR = MC).
- **Long-run equilibrium:** Due to free entry/exit, firms earn **normal profit** (P = AC).
- Use **graphs** to explain both cases.

Question 3: Critically Examine the Marginal Productivity Theory of Distribution

- Define **theory**: Factors of production are paid according to their **marginal productivity**.
- Explain assumptions: **Perfect competition, diminishing returns, full employment**.
- **Criticize**:
  - Ignores **bargaining power** of workers.
  - Unrealistic **perfect competition assumption**.
  - Does not consider **government intervention**.

Question 4: Importance of Zakat and Usher

- **Zakat**: Purifies wealth, redistributes income, reduces poverty, encourages social justice.
- **Usher**: Islamic tax on **agriculture**, ensures fair distribution of farm produce.
- **Economic importance**: Stimulates consumption, reduces income inequality, promotes investment.

Question 5: Methods of Measuring National Income

- Define **National Income**: Total income earned by a country's factors of production.
- Explain **three main methods**:
  1. **Product Method** (GDP at factor cost)
  2. **Income Method** (Sum of wages, rent, interest, profit)
  3. **Expenditure Method** (C + I + G + (X-M))
- Discuss **challenges**: Informal sector, inflation, double counting.

Question 6: Critically Examine Ricardian Theory of Rent

- Define **Ricardian Rent Theory**: Rent arises due to differences in **land fertility**.
- Explain **assumptions**: Fixed land supply, different productivity levels, diminishing returns.
- **Criticism**:
    - Ignores **modern factors of rent** (location, demand).
    - Assumes **land is fixed**, which is unrealistic.
    - **Does not apply** to other factors of production.

Question 7: Elasticities of Demand

(i) **Price Elasticity of Demand:** Measures responsiveness of **demand** to **price changes**.
(ii) **Income Elasticity of Demand:** Measures how **demand changes** with **income variations**.
(iii) **Cross Elasticity of Demand:** Measures demand sensitivity to **price changes of related goods**.
(iv) **Point Elasticity of Demand:** Measures elasticity **at a specific point** on the demand curve using calculus.

Use **formulas, examples, and graphs** where applicable.