

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

Question No. 1

Discuss the Marshall's definition of Economics. How is it different from the classical definition?

Question No. 2

Define an indifference curve. State and explain its properties.

Question No. 3

How is price and output determined under monopoly?

Question No. 4

Critically examine the Marginal Productivity Theory.

Question No. 5

Define National Income. Discuss the various concepts of national Income.

Question No. 6

Discuss the various Canons of Taxation followed by modern governments.

Question No. 7

What do you mean by Zakat? Differentiate between Zakat and Tax.

Question No. 8

Average Revenue (P) Function of a monopolist firm is given as: $AR=10-Q$

Find: i) TR Function ii) MR Function iii) Slope of MR iv) Slope of AR

See Guideline/Hints for each question on next page.

Guideline/Hints for each question

Question 1: Marshall's Definition of Economics vs. Classical Definition

- **Marshall's Definition:** Economics is the study of **wealth and human welfare** (focus on well-being).
- **Classical Definition** (Adam Smith): Economics is **the science of wealth** (focus on wealth creation).
- **Difference:**
 - **Marshall's approach** is **welfare-oriented**, while **classical economists** emphasized **wealth accumulation**.
 - **Marshall included human behavior**, while **classical economists ignored it**.

Question 2: Indifference Curve & Its Properties

- **Definition:** A curve showing different combinations of goods that give the consumer **equal satisfaction**.
- **Properties:**
 1. **Downward sloping** (more of one good, less of another).
 2. **Convex to origin** (diminishing marginal rate of substitution).
 3. **Higher curves indicate higher satisfaction**.
 4. **Indifference curves do not intersect**.
- **Graphical explanation** with a well-labeled diagram.

Question 3: Price & Output Determination under Monopoly

- **Definition:** A market structure with a **single seller** and no close substitutes.
- **Equilibrium condition:** Profit maximization where **MR = MC**.
- **Short-run:** Can earn **supernormal profit or loss**.
- **Long-run:** Usually earns **supernormal profit** due to **barriers to entry**.
- **Graphical representation** of equilibrium price and output.

Question 4: Critically Examine the Marginal Productivity Theory

- **Definition:** States that each factor of production is paid based on **its marginal productivity**.
- **Assumptions:**
 1. Perfect competition.
 2. Law of diminishing returns.
 3. Factors are **substitutable**.

- **Criticism:**
 - Ignores **bargaining power** of labor.
 - Assumes **perfect competition**, which is unrealistic.
 - Does not consider **non-monetary factors** (e.g., motivation, working conditions).

Question 5: National Income & Its Concepts

- **Definition:** The total value of all **goods and services produced in an economy** in a given period.
- **Concepts of National Income:**
 1. **Gross Domestic Product (GDP)** – Total value of goods/services within a country.
 2. **Gross National Product (GNP)** – GDP + income from abroad.
 3. **Net National Product (NNP)** – GNP - Depreciation.
 4. **National Income (NI)** – NNP - Indirect taxes + subsidies.
 5. **Personal Income (PI)** – Income received by individuals.
 6. **Disposable Income (DI)** – PI - Personal taxes.

Question 6: Canons of Taxation

- **Definition:** Principles of a good tax system as given by **Adam Smith**.
- **Modern Canons of Taxation:**
 1. **Equity** – Fair distribution of tax burden.
 2. **Certainty** – Taxpayers should know how much to pay.
 3. **Convenience** – Easy and timely payment.
 4. **Economy** – Collection cost should be minimal.
 5. **Productivity** – Should generate adequate revenue.
 6. **Simplicity** – Easy to understand and comply with.

Question 7: Zakat vs. Tax

- **Zakat:** A **compulsory Islamic charity** given to the poor (2.5% of savings/assets).
- **Difference Between Zakat & Tax:**

Feature	Zakat	Tax
Purpose	Religious & welfare	Government revenue
Obligation	Only on Muslims	On all citizens
Usage	Helping poor & needy	Infrastructure, defense, administration
Fixed Rate	2.5% on eligible wealth	Varies (income tax, sales tax, etc.)

- **Conclusion:** **Zakat is for social welfare, while tax is for government funding.**