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

Question No. 1

Describe the importance and advantages of Economics.

Question No. 2

Explain the law of Equi-Marginal utility and give its assumptions.

Question No. 3

State and explain the Law of Variable Proportion with schedule and diagram.

Question No. 4

How is price and output of a firm determined under perfect competition?

Question No. 5

State, explain and criticize the Marginal Productivity theory of distribution.

Question No. 6

Distinguish between: a) Direct tax and lndirect tax b) Proportional tax and progressive tax

Question No. 7

What do you mean by Zakat? Give its impact on the economy of a country.

Question No. 8

The total cost function is given: $TC=5Q^2+8Q+20$

Find MC and ATC b) Find MC and ATC at Q = 3

See Guideline/Hints for each question on next page.

Guideline/Hints for each question

Q1: Importance and Advantages of Economics

- **Introduction**: Define economics as the study of resource allocation, production, and consumption.
- **Importance**:
  - Helps in **efficient resource allocation**.
  - Guides **government policies** (inflation control, employment).
  - Aids in **business decision-making**.
  - Enhances understanding of **global trade** and **economic growth**.
- **Advantages**:
  - Improves financial planning.
  - Helps in understanding **market dynamics**.
  - Promotes **economic stability and development**.

Q2: Law of Equi-Marginal Utility & Assumptions

- **Definition**: Consumers distribute income so that the **last unit of money spent** on each good provides **equal marginal utility**.
- **Formula**: MUAPA=MUBPB\frac{MU_A}{P_A} = \frac{MU_B}{P_B}PAMUA=PBMUB
- **Assumptions**:
  - Rational consumer behavior.
  - Utility is **measurable**.
  - **Constant** marginal utility of money.
- **Practical Importance**: Basis for **consumer equilibrium and budgeting**.

Q3: Law of Variable Proportion (Law of Diminishing Returns)

- **Definition**: When one input (labor/capital) is **increased**, keeping others constant, **marginal product decreases** after a point.
- **Three Stages**:
  1. **Increasing Returns**: More inputs → Higher output.
  2. **Diminishing Returns**: Output grows at **decreasing rate**.
  3. **Negative Returns**: Too many inputs reduce output.
- **Diagram & Schedule**: Must show TP, MP, and AP curves.

- **Significance**: Helps firms decide **optimal input mix**.

Q4: Price & Output Determination under Perfect Competition

- **Definition**: Large number of firms, identical products, free entry & exit.
- **Short-Run Equilibrium**:
  - Firms **maximize profit** where **MC = MR**.
  - Can earn **supernormal profit/loss**.
- **Long-Run Equilibrium**:
  - Only **normal profit** remains due to **entry/exit** of firms.
- **Graphical Representation** is necessary.

Q5: Marginal Productivity Theory of Distribution (MPT)

- **Definition**: Factors (land, labor, capital) are paid according to their **marginal productivity**.
- **Explanation**:
  - Wage = **Marginal Product of Labor (MPL)**
  - Rent = **Marginal Product of Land**
  - Interest = **Marginal Product of Capital**
- **Criticism**:
  - Unrealistic assumptions (perfect competition, full employment).
  - Ignores role of **bargaining power** & **market imperfections**.

Q6: Difference Between Tax Types

- **(a) Direct Tax vs. Indirect Tax**
  - **Direct Tax**: Paid directly by individuals (e.g., **Income Tax**).
  - **Indirect Tax**: Paid through goods/services (e.g., **GST, VAT**).
  - **Direct is progressive**, while **indirect is regressive**.
- **(b) Proportional Tax vs. Progressive Tax**
  - **Proportional Tax**: **Fixed rate** (e.g., corporate tax @ 30%).
  - **Progressive Tax**: **Higher income → Higher tax rate** (e.g., Income Tax).
  - Progressive tax **reduces inequality**, proportional tax **is neutral**.

Q7: Zakat & Its Economic Impact

- **Definition**: Islamic wealth tax (2.5% on savings, gold, assets).
- **Economic Impact**:
    - **Reduces poverty** (redistributes wealth).
    - **Encourages investment** (idle money is discouraged).
    - **Enhances social welfare** (funds for poor, health, education).
    - **Stabilizes economy** (increases consumption & demand).
- **Comparison with Tax**: Zakat is **compulsory for Muslims** and **spiritually motivated**, while tax is **state-imposed**.