QUESTION NO. 1

Development means changes taking place in economic life of people or we may also say that economic development is the process of improvement in living standard of people.

DEFINITION:

The process of economic development can judge from the view point of following economists:

Kindle Berger:

"Economic development implies both more output and changes in technical and institutional arrangement by which produced and distributed".

Meri and Baldwin:

"Economic development is a process whereby an economy's real national income increases over a long period and if the rate of growth is faster than the rate of population then per capita income will increase".

METHODS OF MEASUREMENT

There are various methods for the measurement of economic development, which has been adopted, be the economists at a particular time. The most important methods are as follows:

(a) NATIONAL INCOME METHOD:

National income is considered as important measure of economic development of the level of national income is not increasing, a country is not developing of the rate of growth of national income is greater than the growth rate of population than there is an economic development.

ADVANTAGES

Following are the main advantages of national income:

(1) Analysis of Economic Problem:

If national income is base for measurement of economic development, we can analyze several economic problems e.g., unemployment, unequal distribution of wealth etc.

(2) For Development Countries:

This method is also very important for development countries because underdeveloped countries per capita income is already high. They want to increase national income, so that there will be full employment without inflation and deflation.

(3) Study of Different Sectors:

Based on national income analysis, we can study the different sectors of the economy like agriculture, industry, mines and services sector.

DIFFICULTIES

There are certain difficulties in measuring economic development under this approach:

(1) Difficulty in Calculation:

It is very difficult to determine the value of various commodities.

(2) Difficulty in Comparison:

It is very difficult to make comparison of level of income between various countries.

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(3) Danger of Double Counting:

While calculating national income, there is danger of double counting, e.g., cotton price is taken then cloth price is also taken.

(4) Inaccurate Statistical Data:

Statistics available of national income are generally not accurate.

(5) Lack of Statistical Data:

There is no accurate statistical data about the national income. People in the LDC's do not cooperate with statistical department.

(b) PER CAPITA INCOME:

Real per capita income is considered to be better index for measuring economic development. It is obtained by dividing the national income by number of population.

As Per capita income = GNP population

If real per capita income increases over a long period, it will indicate that country is operating economic development.

ADVANTAGES

Following are the advantages of this approach:

(1) Easy Calculation:

Real per capita income is easily calculated with the help of formula.

(2) Information is Easily Available:

Information about per capita income is easily available. Therefore, we can compare the economic development of our country with other developed countries.

(3) Real Picture of Economy:

Real per capita income shows the real picture of economy e.g., in Kuwait per capita income level is very high in world, yet the country is in initial stages of development.

DIFFICULTIES

There are certain difficulties in using per capita income as an index of development. These are as follows:

(1) Not Easy Measurement:

The data of national income and population is not easy to measure.

(2) Pattern of Distribution:

Per capita income does not show the pattern of distribution of national income among various classes of people.

(3) Ignore the Qualities Aspects:

The standard of living of people is judged from per capita income. It ignores the qualitative aspects of life of people. Therefore, it means it fall to throw light on standard of living.

(4) Ignore the Distribution Aspects:

It also fails to throw on the distribution of national income among various classes of the people and between the different areas of the same country. Sometime per capita income is very high but majority of people are facing poverty.

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(c) PHYSICAL QUALITIES OF LIFE INDEX:

Norman hicks introduced this concept of life index. According to this method, the standard of living society is considered yardstick of the level of economic development. If life index is gradually improving and the poverty is eliminating, it will indicate that country is no the road of development. According to this approach, there should be reduction of poverty satisfaction of human needs such as health, food, education, housing and clothing.

(d) HUMAN DEVELOPMENT INDEX:

This report is prepared by "United Nations Development Organization". According to this report, human development is a process of enlarging choices. The choices are identified in this way.

(1) To be healthy and long life.

(2) To be educated.

(3) To use resources of attainment of descent living standard.

(4) To have political freedom.

(5) To have self-respect.

(e) SOCIAL WELFARE APPROACH:

Some economists consider human welfare of the world as a measure of economic development. This approach is not bad, but it is impracticable because people of developed nations of the west do not take interest in the welfare of the LDC's of Africa and Asia.

QUESTION NO. 2

DEFINITION:

According to **Prof. Ragner Nurkse**, "the meaning of capital accumulation is that the society does not apply to the need and desires of immediate consumption but directs a part of it to the making of capital goods, tools and instruments machinery and transport facilities, plants and equipments, all the various forms of real capital that can so greatly increase in the efficiency of productive effort".

FACTORS RESPONSIBLE FOR LOW RATE OF CAPITAL FORMATION:

It's very clear that rate of capital formation in LDC's is very low. As LDCs suffer with the shortage of these factors which provide the basis for capital formation such as; savings, institutions mobilizing these savings and investments of these saving etc. The rate of capital formation in LDCs is about 5% whereas in America it is 15%.

The main causes for low rate of capital formation are as follow:

(1) Low Income:

Most of the people living in LDCs are facing problems of low income and low per capita income that leads to low saving capacity. Savings are essential for capital formation. **During fiscal year (2017-18) per capita income increased to $ 1640.**

(2) Population Pressure:

High population growth rate is also a characteristic of LDCs that adversely affect the per capita income. As a result the entire income is spent on bringing up the additional numbers, and little is saved for capital formation. Thus demographic factors inhabit the rate of capital formation. **Population growth rate remains 2.4% during 2017-18.**

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(3) Unfair Distribution of Wealth:

Large disparities prevail between the income of the rich and of the poor in developing countries like Pakistan. That keeps the rate of capital formation low.

(4) Inadequate Markets:

Inadequate market facilities are also responsible for low rate of capital formation in developing countries that discourage the investors to invest. Small size of market to absorb the supply of new products also a barrier. These factors keeps the capital function at a low level.

(5) Shortage of Human Capital:

LDCs facing the shortage of human capital. Natural resources in these countries mis-utilized due to the lake of efficient labour and technical knowledge, etc. These factors adversely affect the rate of capital formation.

(6) Social Overhead Capital (SOC):

SOC or infrastructure facilities like roads, railway, communication, power etc., are lacking in LDCs. But process of capital formation depends on those factors to a considerable extent. That's way rate of capital formation in these countries is not encouraging.

(7) Technological Backwardness:

Antiquated techniques of production are being used in developing countries that adversely affect the productivity of labour and keeps the rate of capital formation low.

(8) Political Instability:

Rapid change in government and policies of the government discourage the old and new investors that are also important cause in retarding and reducing rate of capital formation in developing countries.

(9) Tax Burden:

Tax structure of LDCs is also not encouraging one, government usually to overcome their deficit, increases the number or rate of taxes direct or indirect taxes that reduces the saving capacity of the nation and ultimately put negative impact on the rate of capital formation.

(10) In Sufficient Financial Institutions:

Major responsibility of providing and generating the funds for investment is of financial institutions of any country. Unfortunately LDCs facing another problem of insufficient and ineffective financial institutions that is also standing in the way of capital formation.

(11) Lack of Entrepreneurial Abilities:

Lack of entrepreneurial abilities is another factor responsible for low capital formation.

(12) Capital Output Ratio (C.O.R):

C.O.R in LDCs like Pakistan is very low as compare to the developed countries that is also a hurdle for high rate of capital formation.

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STEPS / MEASURES TO RAISE CAPITAL FORMATION:

Following measures can be helpful to improve the rate of capital formation in developing countries:

(1) Encouraging Saving:

In Pakistan **saving rate raised to 11.4% of GDP** last year, that is inadequate for investment. Thus to raise the rate of capital formation savings should be encourage through different schemes like, tax exemption by selling, prize bonds and saving certificates etc.

(2) Utilization of Disguised Unemployment:

The disguised unemployed workers contribute a little or nothing to output, i.e., their marginal productivity is zero or negligible. Such unproductive workers can be draw from the land without a fall in agriculture output and employed on various projects like, transport, communication, bridges etc., to make them fruitful source of capital formation.

(3) Fiscal Measures:

As developing countries are suffering from low level of voluntary and involuntary savings that retard the process of capital formation. In such circumstances, it is the responsibility of the government to take fiscal measures to increase the saving level and to mobilize them into productive activities such as, by reducing government expenditures or increasing taxes etc.

(4) Capital Market:

Capital market is also an effective channel to mobilize funds from un-productive to productive purposes. Government can raise the rate of capital market by strengthen channels like stock exchange, brokerage houses etc.

(5) Utilization of Natural Resources:

Developing countries usually clutched in under utilization of natural resources due to poor administrative policies. To increase the pace of capital accumulation natural resources should be optimally utilized.

(6) Privatization of Govt. Enterprises:

Government through institutional privatization can generate the capital. Careful steps regarding privatization can contribute to capital formation process truly.

(7) Public Borrowing:

Public borrowing is also an important and effective method to increase the rate of capital formation. But in developing countries the scope of these services are limited because of the low level of income and saving and high propensity to consume. Thus government can generate revenue for capital formation through public borrowing.

(8) Foreign Economic Assistance:

Developing countries not having adequate capital to meet financial requirements. To bridge up the deficiencies of capital, foreign economic assistance may be obtained that can be very useful source of capital accumulation.

(9) Reducing Population Growth:

One of the main problems of developing countries is high population growth rate. 2.4% population growth rate in Pakistan keeps the level of per-capita income low that leads to low saving capacity and retard the process of capital formation. Thus by reducing population growth rate a country can raise the process of capital formation.

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QUESTION NO. 3

AGRICULTURE PRICE POLICY:

According to Paul Steeren "Prices fulfill three functions: They are signals, incentives and instruments for the allocation of resources and incomes."

OBJECTIVES OF AGRICULTURAL PRICE POLICY

While framing agricultural price policy Governments in developing countries keep the following objectives in view:

(1) Increasing the Production of a Particular Crop:

Population in Pakistan is increasing at a rate of 1.7% per annum. Demand for food is increasing. In Pakistan demand for wheat, rice and sugar has increased due to increase in population. Although Pakistan is an agrarian country yet we were importing wheat and sugar prior to 1980's. Now we have become self sufficient in wheat and sugar and in last years, we also exported wheat or sugar. This was due to price policy. Government remain the **minimum price to Rs. 1100 per 40 kg during 2017-18**, which resulted in higher production of wheat. Area under cultivation increased because higher profits in production of wheat and sugar were expected.

(2) Import Substitution:

Import substitution means the production of those goods and services within the country which were being imported earlier. In previous years we were importing wheat and sugar and now we have become self-sufficient and also exported them, which has not only saved foreign exchange but also earned foreign exchange.

(3) Increasing Output of Exporting Crops:

Pakistan is a developing country and like other developing countries, exports basic raw material, agricultural produces and primary goods and imports industrial goods, industrial raw material. It needs foreign exchange to import necessary input and machinery and defence armaments. Government influences the prices of these crops to increase their production, either by subsidising inputs or by increasing minimum prices.

(4) Balanced Cropping Pattern:

One of the objectives of price policy is that there should be balanced cropping pattern. Increase in production of two or three crops does not mean development of agriculture sector, as balanced growth of various sectors of the economy is necessary for economic development. So balanced cropping pattern is necessary to develop agriculture sector.

(5) To Increase the Income Level of Farmers:

In Pakistan 65.9% people live in agriculture sector where there is disguised unemployment, real per capita income is low and they cannot even purchase the basic necessities of life so Government through agriculture price policy provides subsidy on inputs and outputs to increase their income.

(6) Maintaining Equitable Terms of Trade:

Terms of trade for developing countries remain unfavourable because developing, countries like Pakistan, export raw material, primary goods and agricultural produces whose prices are always fluctuating in international market and import industrial goods, machinery and industrial raw material whose prices are increasing, therefore, government provides information to increase production of those crops whose prices are increasing and demand is increasing and for this purpose gives facilities of credit and low export duty etc.

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(7) Narrowing Gap Between Rural and Urban Areas:

In developing countries there is generally unequal distribution of wealth and resources. There exist two classes, poor class and the other is rich class i.e. two economies are existing within one economy. In urban areas there is a developed economy where facilities of life are available, per capita income is high, means of transport and communication are developed, education rate is high, there is industralisation, while in rural areas there is a subsistence economy, which is primitive and backward where per capita income is low, means of transport are either under developed or not existing, even primary education is not available. Government tries to narrow the gap between rural and urban areas.

(8) Stabilising Agricultural Prices:

In present times, the role of Government is influencing the prices has increased. Excessive increase in prices creates inflation and decrease in prices, reduce incentives in the agriculture sector. So Government's object is to stabilize prices. By stability it does not mean stagnant prices but there should be 2% or 3% increase in prices so as to provide incentives for the producers.

(9) Encouraging Larger Investment:

Government influences or determines the prices of agricultural inputs and outputs to encourage investment. Government subsides prices of inputs and stabilises prices of outputs to increase larger investment in agriculture.

(10) Efficient Use of Resources:

Appropriate price policy may stimulate agricultural production by:

(a) Causing producers to move closer to their production possibility frontier.

(b) By better use of resources, encouraging use of more labour and other variable resource inputs to reach higher production function and output levels.

(c) Or including investment and discovery and adoption of new agricultural technologies that results in new, low cost production function.

(11) To Use Improved:

Price incentives may cause farmers to use improved seeds, alongwith more fertilizers, pesticides and other purchased inputs, to adopt improved cultural practices, and to apply more hired labour.

(12) Shifts in the Production Function:

The most important long run effects of price policy on production may be through price induced shifts in the production function, rather than through greater efficiency of resources use with existing production function.

PROBLEMS OF AGRICULTURAL PRICE POLICY

Mainly following are the problems which affect the agricultural price policy.

(1) Capricious climate of Pakistan badly affects the agricultural productions and price policy cannot successfully operate.

(2) Pests and other plant diseases destroy 15% of our production and to control them chemical and medicines are required due to which production increases. Moreover, soil erosions, water logging and salinity are the problems. To control them, remedial measures have to be adopted which also add to cost of production.

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(3) Due to poverty our farmers sell their products immediately after harvesting keeping a little and sometimes without profits.

(4) Due to illiteracy and lack of communication farmers are not aware of price policies.

(5) Statistical surveys in this regard are not authentic.

(6) Defective planning due to inadequate statistical reports, surveys and information.

(7) Owing to a weak system of transport and communication markets in Pakistan are narrow, Intermediaries in markets are active and they do not act upon the price policies.

(8) Rapid change in Government is another problem. It also brings about change in policies.

MEASURES TO THE PROBLEMS

(1) **Revision of Prices:**

APCom to benefit farmers revises the support prices every year. APCom to compensate the increase in cost of production increases the prices.

(2) **Elimination of Cobweb Fluctuation:**

In agriculture sector prices and supply chases each other. Immediately supply cannot be increased in agriculture because for the cultivation of a whole season is required. In Pakistan PASSCO and Agriculture Department purchase 1/3 agriculture production to control the market.

(3) **Protection During Harvesting:**

There are many uncertainties about which a farmer can think, like rain, storms, etc. Our farmers also have limited facilities of stores and godowns. To protect farmers from these dangers, PASSCO and agriculture Department purchase the crops and make necessary arrangements to reap and save the crop.

(4) **Tour and Visit Scheme:**

Punjab and Sindh Agriculture Departments have started tour and visit scheme, under which farms are visited by the experts. Guidance regarding prices would be provided to the farmers.

(5) **AMSL and NLC:**

Agriculture Marketing Storage Limited and National Logistic Cell provide transport and storage facilities. These organizations provide safe and swift transport to supply perishable agriculture production.

(6) **Advantages to Small Farmers:**

Support price particularly helps small farmers who sell the harvesting at low prices due to lack of bargaining power. They take the advantage of fixed prices and earn suitable profits.

QUESTION NO. 4

INTRODUCTION:

Cottage and small scale industry forms an important part of the manufacturing sector. It has a great significance for a developing country like Pakistan. The scale of industry can be defined as on the basis of employment or fixed assets.

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DEFINITION:

"The industry which is generally carried on in the house of artisan. It is usually assisted in his work by the members of his family. The job may be whole time or part time. The implement used are very simple. e.g., Wood work, Hand knotted carpets, Toy making etc., are the examples of the cottage industry".

PROBLEMS OF SMALL SCALE INDUSTRIES

(1) Inadequate Market Facility:

Marketing system in Pakistan is defective less facilities are available for small scale industry. Due to financial weakness they can't afford the facilities like advertisement.

(2) Lack of Credit Facility:

Due to their small size and with no future guarantee they have lack of credit facility which is the main cause of backwardness they can't afford the facilities like advertisement.

(3) Absence of Standardization:

The good produced small scale, lack of standardization. The demand for sub-standard goods faces the problem of marketing both in the home and external market.

(4) Lack of Technical Service:

Due to capital and non-availability of credit facility these industries can't obtain the services of technical exports.

(5) Unfavourable Commercial Policy:

The commercial policy is announced without any regard of small units.

(6) Inadequate Electric Supply:

Small scale and cottage industry are spread all over the world or country, and there is frequency breakdown of electricity in supply in rural sections. Due to shortage of electricity, these industries can't increase the production.

(7) People Behaviour:

People in Pakistan like to use the imported goods, so the behaviour of people about local product is not good favourable.

(8) Old Technique of Production:

Due to non-availability of credit facility and the lack of technical know how, old techniques of production are to be adopted due to which quality remain low.

(9) Lack of Designs Centers:

The other main cause of backwardness is the lack of design centers.

(10) Improper Infrastructure Facilities:

The main cause of backwardness of this industry is the improper infracture facility. The producers and industrialist do not know the proper ways of transport and communications that is why, they are unaware of.

(11) Smuggling:

Foreign goods are smuggled in Pakistan. These goods are cheaper than local products.

(12) Inadequate Supply of Raw Material:

There is no proper arrangement for the supply of raw material to these industr Raw material is generally used of low quality so quality of product can't be maintained.

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MEASURES TO THE PROBLEMS

(1) Facilities of Marketing:

To enhance the export of SMEs products marketing plays vital role. Government should take steps to promote SMEs products through fairs, exhibition etc. These activities will encourage to small investors to invest more.

(2) Use of Foreign Aid:

To overcome saving investment gap, government can use foreign aid. Productive use of foreign aid can be helpful to remove the problems of capital shortage in small sector.

(3) Tax Concessions:

Government should give incentives to this sector by providing them tax concession facility. To encourage investment in this sector tax rebates and subsidy policy could be helpful.

(4) Credit Facilities:

Shortage of capital is advocated as a basic constraint to development of small scale. People engaged with this sector mostly having week financial position and unable to meet the financial requirements of the business. Complicated and lengthy procedure becomes another obstacle to get loan. Thus, to overcome these all factors government should establish such channels like, one window operation through which accessibility to this facility could be ensure.

QUESTION NO. 5

See Paper 2015 Question No. 5, Paper 2016 Question No. 6 & Paper 2017 Question No. 7

QUESTION NO. 6

"Balance of payment is a comprehensive record of all transaction between the resident of one country and the rest of the entire world during a particular year".

The items which lead to an inflow of foreign earning are placed on credit side of the balance sheet. Where as the items which give rise to an outflow of currency is placed balance sheet. Where as the items which give rise to an outflow of currency is placed on debit side. So,

BOP = Balance of visible items + Balance of invisible items

FAVOURABLE – SURPLUS BOP:

If the total receipts of visible and invisible items of export or inflow of currency or total credit exceed the value of visible and non-visible payment or outflow of currency or total debit side or total imports during one year, the BOP is said to be surplus or favourable.

UNFAVOURABLE – DEFICIT BOP:

If the total receipts of visible and invisible items of export or inflow of currency or total credit or total exports are less than the value of visible and invisible payment or outflow of currency or total debit or total imports during the year, the BOP is said to be deficit.

BALANCE OF PAYMENT IN PAKISTAN

Pakistan BOP situation is not satisfactory since independence with exception of five years. i.e. (1950-1951, 1954-1955, 1955-1956, 1958-1959 & 1959-1960). The deficit on current account is met by external borrowing. In spit of Government efforts to control deficit, it is on increase. The current deficit in the BOP for the year 2008-2009 was $8.5 billion. However, it

improved on account of a number of economic factors. The foreign exchange reserves position removed bit comfortable for first three quarters July to March 2008-2009, ended with a build up of Rs. 11.6 million in reserves.

CAUSES OF ADVERSE BALANCE OF PAYMENT

(1) Fall in Exports:

Pakistan's exports are mostly of agricultural raw material. Consumption of raw materials has increased due to the establishment of industries within the country. It has reduced our exports.

(2) Imports of Capital Goods:

The heavy import of capital goods like machinery by developing countries like Pakistan also made the BOP unfavourable.

(3) Import of Consumer Goods:

Increase of import of consumer goods is also the cause of unfavourable BOP.

(4) Inflation:

Pakistan is facing inflation. Due to increase in cost, our export can't compete in international markets and hence BOP remains unfavourable.

(5) Unfavourable Terms of Trade:

The terms on which we exchange our exports for imports are unfavourable. The BOP remains deficit because our exports are falling while import prices are going up.

(6) Defense Need:

Pakistan has to import the modern weapons at a very high cost for meeting the defense need. It increases the pressure of our BOP.

(7) Low Quality Produce:

Our products are not preferred in international markets because of low quality of produce, which makes our BOP untavourable.

(8) Expenditure on Diplomatic Offices:

Pakistan is incurring a huge expenditure of diplomatic offices, which makes our BOP unfavourable.

(9) Liberal Import Policy:

Due to liberal import policy, the luxuries and necessary goods are imported which is the cause of deficit BOP.

(10) Food Stuff and Products:

Pakistan has not attained self sufficiency in food and other essential goods. There are imported to meet the requirement. So, our BOP becomes unfavourable.

(11) Import of Fertilizer:

Due to increase in price of fertilizers, there is a sharp increase in import payments to the outside world. The BOP therefore is adversely affected.

(12) Import of Oil:

The sharp rise in oil price in 70's, 80's, 90's, and from 2[illegible] onward have worsened the BOP.

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(13) High Payment of Wheat:

There is a problem of food shortage in Pakistan. So, Pakistan has to spend huge amount on import of wheat, which effects BOP.

(14) High Payment of Freight and Insurance:

Pakistan has made higher payment for freight, insurance, transport and travel etc. It also increase deficit in BOP.

(15) Political Unrest:

Pakistan is facing the problem of political unrest, which hampers production and investment. So, BOP remains unfavourable.

(16) Advance Countries Policy:

The import policy of advanced countries is unfavourable for poor countries. They have formed union against developing countries. They also impose many restrictions on imports.

(17) Poor Performance of Public Sector:

The performance of various industries in public sector is poor. So, we have to spend at large amount of foreign exchange on these.

(18) Payment of Foreign Service:

Pakistan has to pay large amount of foreign exchange for Foreign Service which makes BOP unfavourable.

(19) Increase in Stick Industrial Units:

Due to nationalization, many units were not running in full capacity. They also contribute to adverse BOP.

(20) Domestic Problems:

Domestic problems like floods, droughts, Afghan refugees, terrorism etc., have also affected our BOP.

(21) Fall in Foreign Remittances:

Foreign remittances have fallen because of returning of Pakistani workers from Kuwait and Iraq, due to gulf crises. So, it has also put pressure on our BOP.

(22) International Factors:

Sluggish growth of international market, imposing of anti-dumping duties, propaganda about child labour, the happening of 9/11 and many other factors have also contributed to adverse BOP.

MEASURES TO CORRECT THE ADVERSE BALANCE OF PAYMENT

(1) Promotion of Labour Intensive Industries:

Pakistan should give priority to the development of labour intensive industries. The cheap labour increases production and exports.

(2) No Import of Luxuries:

The import of luxuries should be banned. In this way, foreign exchange will be saved and BOP should be correct.

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(3) Increase in Agri Output:

Agri output should be increased to attain self sufficiency. It will save foreign exchange and provide surplus for export.

(4) Reduction in Diplomatic Expenditures:

Pakistan should reduce the number of diplomatic offices and embassies to save the foreign exchange.

(5) Limited Delegates:

The Government of Pakistan should reduce the number of foreign visits ministers and higher officials. Delegates for foreign visits should include a limited number of persons.

(6) Increase in Foreign Remittances:

The Government should provide more incentives to Pakistan workers to send their earnings.

(7) Increase in Exports:

Exports should be increased. Expansion and improvement in quality should go side by side. It will increase chances of higher prices.

(8) Decrease in Imports:

Imposing restrictions on import of non-essential goods will reduce import.

(9) Improvement in Terms of Trade:

BOP can be improved by correcting BOT. The standard of country's import should be improved to get higher returns.

(10) Increase in Invisible Exports:

The BOP can be improved by increasing invisible exports. With increase in exports, the BOP position can be improved

(11) Reduction in Export Duties:

The Government should reduce the export duties to encourage the export. It will improve BOP position.

(12) Decrease in Consumption:

Consumption of locally manufactured goods should be reduced. So, goods can be exported.

(13) Self Reliance:

Pakistan should repay the foreign debts and should follow self reliance policy.

(14) Joint Ventures:

Establishing industries with joint ventures of foreign investors should increase the exports. These products can be sold in foreign markets.

(15) Packing:

Higher quality of packing is essential to increase the exports.

(16) Proper Utilization:

Pakistan should utilize its resources properly. It will in... ...se the production and exports of the country.

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(17) Change in Exports:

For improving the BOP, we should export the manufactured goods instead of raw materials.

(18) Denationalization:

The Government should denationalize all sick industries. The private sector can receive the sick units and increase the production which will increase the exports.

(19) Revision in Import and Export Policy:

The Government should revise the import and export policy in such a way that it discourages the imports and encourages exports.

QUESTION NO. 7

INTRODUCTION:

Pakistan Railways provides an important mode of Transportation in the farthest corners of the country and brings them closer for Business; sight seeing, pilgrimage and education. It has been a great integrating force and forms the life line of the country by catering to its needs for large scale movement of people and freight. Remember that first steam engine was invented by **George Stephension in 1825**.

The possibility of Karachi as a sea port was first noticed in the **mid of 19th century** and **Sir Henry Edward Frere** who was appointed **Commissioner of Sindh** after its annexation with **Bombay in 1847** sought permission from **Lord Dalhousie** to begin survey of sea port. He also initiated the **survey for Railway line in 1858**. It was proposed that a railway line from **Karachi Cit to Kotri**, steam navigation up the Indus / Chenab upto Multan and from there another railway to Lahore and beyond be constructed.

It was on **13th May, 1861** that first railway line was opened for public traffic between Karachi City and Kotri, the distance of **105 miles**. The line between Karachi City and Keaman was opened on **16th June, 1889**. By 1897 the line from Keamari to Kotri was doubled.

The railway line from Peshawar to Karachi closely follows Alexander's line of march through the Hindu Kush to the sea. Different sections on existing main line from **Peshawar to Lahore and Multan** and branch lines were constructed in the last quarter of 19th century and early years of 20th century.

The sections i.e., **Scinde railways, Indian Flotilla Company Punjab Railway and Delhi Railway Company** and was purchased by the **Secretary of State for India in** 1885 and in **January, 1886 it was named North Western State Railways** which was later on renamed as **North Western Railways**.

At the time of partition, North **Western Railway's 1847 route mile** was transferred to India leaving route miles **5048 to Pakistan**. In 1954, the railway line was extended to Mardan and Charsada section and in 1956 Jacababad-Kasmore 2'-6" line was converted into broad gauge. Kot Adu-Kashmore line was constructed between 1969 to 1973 providing an alternate route from Karachi to up country.

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PROBLEMS OF PAKISTAN RAILWAYS

(1) Corruption:

Corruption of various branches of Pakistan Railways. i.e., Reservation of tickets, Parcel booking, Resale of tickets etc., remains unchecked. The minimization of corruption can improve the services offered to the passenger and business.

(2) Unhealthy Union Activities:

The unhealthy union activities in the organization have adversely affected the performance of railways.

(3) Low Working Efficiency:

Pakistan railways like other public sectors is suffering from low working efficiency.

(4) Traffic for Short Distance Decline:

The volume of passenger traffic for short distance has considerably decline.

(5) Uneconomic Sections:

Railways have to operate certain branch route which is uneconomical.

(6) Single Track System:

Trains are operated on single track system. It involves crossing, a wastage of time.

(7) Wornout Rails and Sleepers:

The condition of other assets of Pakistan Railways. i.e., Rails, Wagons, Sleepers is still worse. About 60% of its rails and sleepers have outlived their operational assets. The other machinery of PR is almost overage by 50%. The immediate replacement of the operational assets. i.e. Track, Signaling system, Locomotives etc., is a big constraint in the smooth working of railways.

(8) Overstaffing and Mismanagement:

Operational inefficiency, overstaffing and mismanagement are major reasons for the gradual decline in the performance of railways.

(9) Replacement and Outdate Machinery:

Pakistan railways have not been able to clear the huge backlog of replacement and out dated machinery.

(10) Lack of Commercial Skill:

There is lack of commercial skill in most of the employees.

(11) Depleting Stock:

Due to low investment, the railways rolling have gone done. The locmotives fleet which numbered 1076 during 1965-1970 came down 580 by 2004-2005. The replacement of the depleting stock of locomotives is another serious problem of Pakistan Railways.

(12) Railways Share in the Transport Sector Allocation Reduced:

The railways share in the transport sector allocation in the 2nd five year plan was 76% against the road share of 21%. In the 8th five year plan it has come down to 30% and allocation for road transport is around 57%. The reduction allocation in PR has adversely affected efficiency. i.e., Rs. 9.28 billion in 2004-2005.

(13) Combine Operational and Production Activity:

At present the operational activity of PR is combined with its production units are unmanageable.

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(14) Late Arrival and Departure:

The trains are generally late in arrival and departure. So, passengers are finding inconvenience. People have no confidence on railways performance.

(15) Lack of Facilities for Passengers:

Pakistan Railways do not provide the proper facility to the passengers. So, railways travel is not alternative for passengers.

(16) Lack of Accountability:

There is lack of financial and administrative accountability which is earning problem of inefficiency, malpractices and indiscipline.

(17) Private Trucks and NLC:

Private tracks and NLC have adversely effective the Pakistan Railways.

(18) Power Engines or Uneconomic Engines:

Powerful engines are being used for hand ling light passenger trains even in main line which are not economical.

SOLUTION TO IMPROVE THE EFFICIENCY OF PAKISTAN RAILWAYS

(1) Better Facility for Passengers:

Better facilities should be provided to passengers. The railways stations should have waiting rooms, baths and facilities of drinking water.

(2) Uneconomical Section:

The uneconomical sections and stoppages are done away with.

(3) Better Security of Workshops:

To control the incidence of theft of railways tools and parts, the security measure should be tightened.

(4) Reorganization:

Pakistan railways should be reorganized for smooth and efficient operations. The administrative expenditure should be reduced.

(5) Issue of Tickets to Private Sector:

The private sector an important sector can also improved for issuing of tickets and supervision of trains.

(6) Double Track System:

Double track should be laid down for easy and quick transportation. For this purpose Government should be allocated necessary funds.

(7) Introduction of Fast Intercity Trains:

Emphases on lower air condition coaches improving customers services can increase the revenue of Pakistan Railways.

(8) Privatization:

There should be privatization of railways in parts to avoid heavy losses. Due to financial constrained, it is not possible to replace the outlived locmotives, sleepers, tickets etc. Privatizing the Pakistan Railways into is not in the national interest. It is, suggested that Pakistan Railways to be privatized in part. The private sector an important sector can also be improved for issuing of tickets and supervision of trains.

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(9) Production Unit must be given Autonomy:

The production units like the sleepers, factory, locomotive factory etc., be given autonomy. The private sector can here be also involved to improve its efficiency.

(10) Job on Merits:

Job should be given to people on merit basis. Efficient employees may be profitable for railways.

(11) Control Corruption:

There should be control on corruption, misutilization of funds and leakage of revenue. Railways should organize the special team to check ticket less passengers.

GOVERNMENT MEASURES

The Government took note of the situation and reorganized the railways setup and following measures taken by the Government of Pakistan.

(1) Railway Board more Functional:

Railways board has made more functional by given representation to the:

(i) Private Sector and (ii) Public Sector

(2) Merged of Two Ministries:

The ministry of communication and ministry of railways have been merged since December 2000, consisting of two divisions namely:

(i) Communication Division (ii) Railways Division

Railways have been declared as main system of transport for the country giving priority in resources allocation.

(3) Approved Emergency Repair Plan:

The Government approved an emergency repair plan amounting to Rs. 3.897 billion for two year for the railways sector in December 1999 to stop further deterioration in assets. The plan includes recommissioning of 55 Diesel Electric Locomotive, refurbishment of 240 passenger coaches, rehabilitation of 1000 freight wagons and replacement of 85 km of overage rails and improvement of signaling and telecommunication facilities.

(4) Approved Rehabilitation Plan:

The Government has also approved a rehabilitation plan for improvement and rehabilitation of railways assets for the next five year. This include manufacturing of diesel locomotives, rehabilitation of overage HP locomotives, rehabilitation of covered bogie wagons, modernization of railways track, signaling and telecommunication.

(5) Privatization of School and Hospital Owned by Railways:

The schools and hospitals owned by railways one being privatized to reduce railways expenditure in phased manner.

(6) Vocation of Encroached Land of Railways:

The encroached land of railways is being vacated all over the system.

(7) Separate Marketing Directorate of Lahore:

A separate marketing directorate by induction of marketing management experts has been created at headquarters Lahore to exploit railways land assets commercially, in big major cities through private sector investment.

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QUESTION NO. 8

(a) ADVERSE EFFECTS OF FOREIGN AID

Foreign economic assistance or aid is the flow of resources and technical assistance from a development country or an international organization to stimulate domestic development efforts of a less developed country for filling their (i) Saving investment gap, (ii) Bridging the foreign exchange gap.

MERITS OF THE FOREIGN ECONOMIC ASSISTANCE

Pakistan is a developing country we have been facing the problem of inadequacy of capital. To make capital available for development we need foreign capital inflow and has been relying on it since 1950.

Following an the justifications of foreign economic assistance to Pakistan.

(1) Compensate Capital Deficiency:

Saving level in Pakistan is very low reason behind it is the vicious circle of poverty. On the other side growing population needs increase in investment.

So to cop the need foreign capital is required. Through foreign capital rate of capital formation can be increased.

(2) Industrial Development:

It is necessary for establishment of industries particularly the establishment of key industries like steel fertilizer etc. Such industries play vital role in the development. For this purpose not only capital but also foreign technical services can be hired.

(3) Discovery and Utilization of Natural Resources:

Pakistan has enough natural resources but problem is the mis-utilization of these resources. The optimum use of natural resources accelerate the pace of development for this purpose foreign economic assistance is required in the form of consultants and capital.

Moreover exploration of new resources can be done with the collaboration of foreign companies.

(4) Development of Infrastructure:

Developing economics have weak infrastructure facilities. Transport, communication, administration and power all are the pre requisites of development. Foreign economic assistance in this regard helps a developing country like Pakistan.

(5) Use of Advance Technology:

Now a days use of modern technology is a requisite to improve quality and quantity of production. But in Pakistan even literacy level s only 37.9% and within domestic set-up we cannot promote the use of modern technology. Therefore we need foreign economic assistance. Further more for import substitute change of social life, agri mechanization increase in employment opportunities foreign economic assistance is important.

In a nutshell for the over all development of Pakistan foreign economic assistance can be obtained.

(i) Bridging Saving Gap:

In Pakistan the domestic saving rate averages 13.4% of G.D.P. This low rate of saving is not sufficient to achieve the desired rate of growth. Foreign aid has helped in bridging the resources gap between investment and saving and Pakistan is able to maintain the desired rate of growth. In the recent years it has become difficult to achieve planned rate of 15%.

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(ii) Foreign Exchange Gap:

In Pakistan the imports are increasing and export earnings are falling. The foreign exchange gap is being filled with the inflow of capital,

(iii) Employment Opportunities:

The financing of various projects with the help of foreign assistance provides greater employment opportunities in the country.

(iv) Increased Productivity:

The inflow of capital and technical know-how has increased the productive capacity of various sectors of the economy.

(v) Rise in Standard of Living:

The foreign aid has helped in increasing the marginal productivity of the labour which in turn helped in raising the standard of living.

(vi) High Quality products:

Foreign aid has helped in improving the quality and quantity of manufactured goods and made them available at lower process.

(vii) Help in increasing level of National income and per capital income.

(viii) In meeting the defence expenditure.

(ix) For Development Planning:

Like steel Mills, Heavy Mechanical, Taxila. Heavy Engineering, Tarbela Dam, power stations etc.

(x) To increase literacy rate or population control and check population growth rate.

(xii) Means of Transport and Communication:

The means of transport and communication play an important role in the economic development of the country and foreign aid as helped in improving the infrastructure in Pakistan.

(xiii) Better Relations:

Strengthening of the economic and political ties at international level especially with the Muslim Bock.

(xiv) Helped in National Calamities:

Starvation and drought, shortage of sugar, chillies, wheat, onion, flood meanace is met through foreign aid/assistance.

(xv) Improve the Balance of Payment:

A country can decrease deficit of balance of payment through aid.

(xvi) Import Modern Technology:

Import of modern technology becomes possible only through foreign aid.

(xvii) Industrial and Agricultural Development:

Without the agricultural and industrial development, a country cannot develop. To develop these country needs capital but there is a shortage of capital in Pakistan so foreign aid is necessary to provide capital for these sectors. Foreign aid is useful provided it helps in overcoming bottlenecks in the way of economic developing of a country. It has been observed that t' development countries including Pakistan are not fully utilizing the foreign aid.

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DEMERITS OF THE FOREIGN AID

Foreign aid has increased debt burden in Pakistan. It has become burden on the economy of Pakistan in the following way

(i) The debt burden on Pakistan is 38% billion dollars and Pakistan has to pay 31.79% of the Budget for payment of debt semicing. So a major portion of the national income is being spent on debt servicing instead of development plans.

(ii) Due to devaluation in the past the debt burden increased by and due to dollar delinking the debt burden is being increased.

(iii) The Balance of payment of Pakistan is mostly utilized to bridge up the gap. We have to take loans from I.M.F. which is unproductive and increases burden on the economy.

(iv) An import substitution industry established by the foreign assistance may continue depending on the import of essential raw material from the rich countries.

(v) The political strings are attached with the bilateral loans.

(b) ENERGY CRISIS IN PAKISTAN

See Paper 2015 Question No. 8 (b), Paper 2016 Question No. 8 (i) & Paper 2017 Question No. 8 (i)

(c) CAUSES OF INFLATION IN PAKISTAN

(1) Deficit Financing:

In Pakistan, the surplus currency is issued by the State Bank Pakistan is spent for the constructional and development work in the country which creates inflation.

(2) Increase in Population:

The growth of population is very high which is resulting in the shortage of commodities; therefore prices have increased in the country.

(3) Increase in Wages:

Increase in wages has increased the purchasing power of the people. Wages and price chase each other. When wages are increased then prices are also increased.

(4) Decrease in Production:

Due to agricultural and industrial backwardness, there is less production of commodities in the country. Due to which the prices have increased in the country.

(5) Devaluation:

Devaluation refers to the fixation of low rate of exchange of the national currency in terms of foreign currency. Due to devaluation price level increases and import becomes costly.

(6) Oil Crises:

Due to increase in the prices of petroleum, the price of each and everything has increased. Prices of petroleum indirectly linked with the prices of all the commodities.

(7) Increase in Export of Consumer Goods:

Due to increase in export of consumer goods and raw goods to foreign markets, the quantity of goods is decreased in the country. Therefore, general price level has increased.

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(8) Nationalization of Industries:

After the nationalization of industries in Pakistan, the investor's class is hesitated to do investment due to fear of nationalization. So in this way hoarding is increased in the country and prices has increased in the country.

(9) Construction of Houses:

Since 1970, the people are spending their savings on the purchase and construction of houses. So this expenditure has also contributed towards inflation.

(10) Consumption Habits:

In Pakistan, urban population particularly feels proud in spending money on those items, which are commonly used in the advanced countries. So there is a demonstration effect also in Pakistan.

(11) Foreign Aid:

The volume of foreign aid also increasing with the passage of time, so when this aid is used inside the country, it increases the inflation.

(12) Increase in Indirect Taxation:

The government is increasing the indirect taxes on goods every year. These indirect taxes have also increased the prices of goods.

(13) Rising prices of Imported Goods:

Different commodities are imported whose prices are rising in the world market. So these commodities also bring inflation when they are used in the country.

(14) Wars:

Inflation is natural in the period of war. The supply of consumer goods falls greatly due to decrease in production, which brings inflation.

(15) Foreign Inflation:

The foreign inflation travels to a country via exports, imports, exchange of services and capital movements. For example, the international persistent inflation started in the early 1970s traveled almost to every country.

(16) Psychological Factors:

As inflation continues, people fear sharper rise in prices in the future. The consumers try to buy today and seller to sell tomorrow. This also creates inflation.

(17) Social Evils:

Various social evils like hoarding, black-marketing and smuggling across the boarder are increasing the inflation.

(18) Shortage of Agriculture Goods:

When there is a shortage in supply of agriculture goods like wheat, rice and vegetables, their prices also rise. In our country, the prices of commodities have gone up with the prices of food.

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