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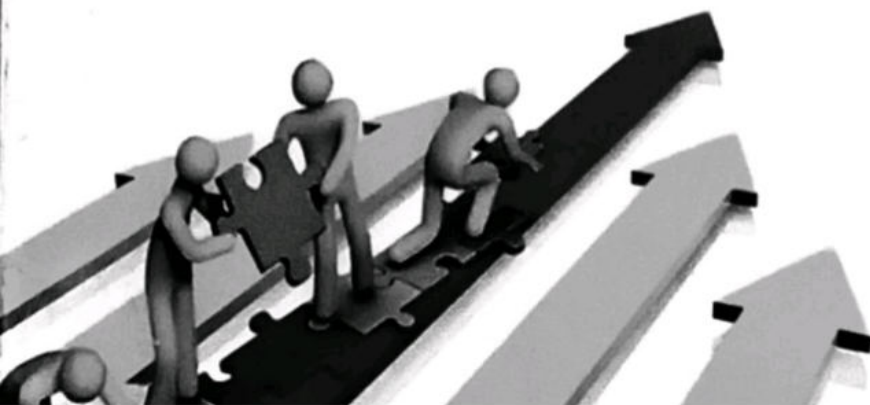
# ECONOMICS

Class X



# SUCCESS

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**CHAPTER 1****ECONOMIC LIFE AND ITS EVOLUTION****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** Define Economic Life. What do you understand by the Evolution of Economic Life?

**Ans:** **Economic Life:**

The life of human beings which is related to the activities of obtaining the necessities of life is called as Economic Life. It is collection of various activities of getting food, clothing, shelter and other requirements of life.

**Evolution of Economic Life**

The process through which the economic activities of man passed in order to reach a state of their various well-organized forms is known as Evolution of Economic Life.

**Q.2** Mention the names of various stages of the Evolution of Economic Life.

**Ans:** **The Stages of Evolution of Economic Life**

Economic life of man was started from uncivilized social life of man with the passage of time, the economic life passed through various development stage which are considered as the stages of Evolution of Economic Life. The names of various stages of the Evolution of Economic life as following.

- |  |                       |
|--|-----------------------|
| (i) Hunting and Gathering Stage        | (ii) Pastoral Stage   |
| (iii) Agriculture and Handicraft Stage | (iv) Industrial Stage |

**Q.3** Write five sentences on Hunting and gathering state of the Evolution of Economic Life.

**Ans:** **Hunting and Gathering Stage**

- (i) This stage is considered as the early stage of the evolution of economic life.
- (ii) In this stage, man was unaware of civilized life. He passed a nomadic life.
- (iii) Man used of hunting of animals for getting his food but it was an uncertain way of acquiring food.
- (iv) In this stage, the tools made from wood, stones and metals were used for hunting.
- (v) Due to uncertain availability of food from hunting, man started to gather animals and stored them for the purpose of food.

**Q.4** Write five sentences on Pastoral Stage of the Evolution of Economic Life.

**Ans:** **Pastoral Stage**

- (i) It is the stage of evolution of economic life which started when man started to store animals in order to solve the problems related to availability of food.
- (ii) In this stage, man learnt to rear cattle like goats, sheep, cows and horses.
- (iii) For feeding his animals he started to roam from place to place his search of grass and water. This kind of field is called as Pasture, therefore this stage is known as Pastoral



Stage.

This stage gave an opportunity to live in groups and to store animals as wealth.

(iv)

It also gave a training of transportation from one place to another.

(v)

Q.5

**Describe Agriculture and Handicraft stage of Evolution of Economic Life in five sentences.**

Ans:

**Agriculture and Handicraft Stage**

(i)

It is the third stage of the evolution of economic life in which agriculture was adopted as a profession and the families in the form of tribes settled down near lakes and river banks.

(ii)

In this stage, man learnt to grow various kinds of crops for the food requirements. He also developed simple handicraft for getting his wants.

(iii)

He not only grew crops for his own food but also grew animal fodder crops.

(iv)

In this stage, man became able to domesticate wild animals and started to use them in his agricultural activities.

(v)

This stage was proved to a developmental stage for the establishment of villages, towns and cities. An agricultural based economy was organized in this stage.

Q.6

**What concepts of Economics developed with the passage of time during Agriculture and Handicraft stage of the evolution of economic life.**

Ans:

**The Development of Economic Concepts**

Agriculture and Handicraft stage of the evolution of economic life was the period of the development of various concept of Economics. It organized the social life based on economic activities, so it gave birth the following concepts of Economics.

(i)

Occupational Structure in tribes

(ii)

Division of Labour

(iii)

Feudal Exchange Economy

(iv)

The Concept of domestic industries

(v)

Development of large scale industries

(vi)

The Concept of Production in order to gain Profit

Q.7

**Describe in few sentences in Tribal Concept of Occupational Division of Labour.**

Ans:

**Tribal Concept of Occupational Division of Labour**

With the emergence of an organized social and economic life in families and tribes during Agriculture and Handicraft stage, a concept of the division of work of production was developed. Different people who had acquired knowledge and experience for doing a certain work started to adopt occupations. Thus an occupational structure was formed among families, groups and tribes of people. This division of labour and occupations helped man not only to fulfill his wants easily but it also promoted cooperation among themselves.

Q.8. **Describe Feudal Exchange Economy in few sentences.**

Ans: **Feudal Exchange Economy**

With the development of agriculture-based societies throughout the world, a system of exchange of products and goods was developed among the members of a same society which is known as Feudal Exchange Economy. It was a period when people started to establish cottage industries. They started to prepare such things which were commonly used in that society. The ploughs, the sickles, the axes and the spades were invented during that period being agricultural stage. These domestic prepared things were exchanged to obtain other things, thus people of a society started to fulfill their wants and desires through the exchange of goods. This economy was mainly associated with the feudalism, hence it is known as Feudal Exchange Economy.



**Q.9** Write down the main causes of the beginning of Industrial Stage.

**Ans:** The Causes of Beginning of Industrial Stage

The origin of the industrial stage is related family economy. The members of a family started to produce handicrafts, thus domestic or cottage industries developed. The main causes of the beginning of the industrial stage can be described as following.

- (i) Skillful craftsmen who got a lot of experience started to work for producing consumption goods like pots, tools, furniture, sews, clothes etc.
- (ii) This handicrafts system developed an occupational structure of skillful workers in domestic or small scale industries.
- (iii) With the introduction of currency system, business transaction became easy and the skillful craftsmen started to involve in large scale production.
- (iv) Invention of different kinds of machinery revolutionized the process of production and created a way for large scale production.
- (v) Domestic, cottage and small scale industry system started to convert in large scale production in big factories. The use of machines became common in production which introduced industrial stage in the history of the evolution of economic life.

**Q.10** What are the two main types of utilizing economic resources. Describe them briefly.

**Ans:** The Ways of Utilizing of Economic Resources

Every country has its own productive resources which include land, natural resource and human resources. These resources are organized in such a way that the production becomes beneficial, thus there are two ways or principles for the production which are following.

**(i)** Private Ownership

The way or principle for the production in which all the productive resources given to common people for using them in the process of production is called Private Ownership. In this process the owners use the resources freely in order to gain more profit. The owners invest their capital and endure the expenses of production, thus they utilize the factors of production for gaining more profit.

**(ii)** Public Ownership

The way or principle for the production in which all the productive resources are kept under the organization of the state and the government organizes the process of production for the welfare of public is called Public Ownership. In Public ownership the productive resources are under the common ownership of nation or state.

**Q.11** Write the points of difference between Ownership and Public Ownership.

**Ans:** Difference b/w Private and Public Ownership

Private Ownership	Public Ownership
(i) The form of ownership in which all the resources of production given to people for utilizing them in the process of production is called Private Ownership.	(i) The form of ownership in which all resources of production are under the ownership of nation or state is called Public Ownership.
(ii) Profit occupies central position in private ownership and all the factors of production are organized in order to gain more and more profit.	(ii) Public welfare occupies in public ownership and all the factors of production are organized in order to provide welfare and prosperity to people.
(iii) The state and the government both do not involve in Private Ownership.	(iii) The state and government both involve in the production under Public Ownership.



(iv) Bureaucracy or government officers do not interrupt in the process of production under Private Ownership.	(iv) Bureaucracy or government officers usually interrupt in the process of production under Public Ownership.
(v) The system of economy which is established under Private Ownership is called Capitalism.	(v) The system of economy which is established under Public Ownership is called Socialism.

**Q.12 Define Capitalism and write down any five characteristics of Capitalism.**

**Ans: Capitalism**

The form of an economic system in which all the resources of production are owned by common people and they use all the big and small means of production for earning profit is called Capitalism. It is a system of economy which capital and capitalists both acquire dominant position and they appear as a powerful element in the affairs of a state.

### **Characteristics of Capitalism**

Important characteristics of capitalism are following.

- (i) Capitalism gives opportunities to every individual to organise his own business for earning profit.
- (ii) Competition is an important characteristics of capitalism which increases the production and provides quality and standard to consumers.
- (iii) Capital is the most important characteristics of capitalism, all the capital for the production is provided by private sector.
- (iv) The determination of prices in capitalism is based upon free market and demand and supply of commodities.
- (v) Capitalism divides the whole society into classes because of the concentration of wealth in few hands.

**Q.13 Define Socialism and state any five characteristics of Socialism.**

**Ans: Socialism**

The form of economic system in which all the means of production are owned by the state and the government is called Socialism. The government has a control on all factors of production and makes plans for production for increasing public welfare. Though profit is not taken as a motive in Socialism but bureaucracy or the groups of government officers occupy central position in this system of economy.

### **Characteristics of Socialism**

Important characteristics of socialism are following.

- (i) In socialism all the factors of production are owned by people through collective ownership of nation.
- (ii) The government utilized all factors of production for the welfare of public. The production is not associated to profit earning motive.
- (iii) Private ownership does not exist in socialism therefore an interest free economy is developed in a state.
- (iv) There is no importance of liking and disliking of consumers in socialism. There is also no liberty of organizing own business or adopting a profession of one's own choice.
- (v) All the policies are devised under the instructions of the government. The government also determines the prices of commodities by keeping a view of purchasing power of common man.



**Q.14** Write down the points of difference between Capitalism and Socialism. Compare the characteristics of Capitalism and Socialism.

**Ans:** Difference b/w Capitalism and Socialism

Capitalism	Socialism
(i) A system of economy in which all sources of production are owned by common people who provide capital for their organization is called Capitalism.	(i) A system in all sources of production are owned by the state and government and the government provides capital to organize them is called Socialism.
(ii) Profit earning is the basic purpose of capitalism.	(ii) Social and public welfare is the basic purpose of socialism.
(iii) Free competition among producers and consumers is allowed in capitalism.	(iii) Free competition among producers and consumers is restricted in socialism.
(iv) The prices are determined by the demand and supply of commodities in market.	(iv) The prices of commodities are determined according to the instructions of the government.
(v) Private property, profession, business and production are all allowed in capitalism.	(v) Private property, profession, business and production are all restricted in socialism.

**Q.15** Define Islamic Economic System. State any five characteristics of Islamic Economic System.

**Ans:** Islamic Economic System

A system of economy which is based upon Zakaat, Ushr, Interest free business and under the supervision of an Islamic government is called Islamic Economic System.

**Characteristics of Islamic Economic System**

- Important characteristics of Islamic Economic System are following.
- In Islamic Economic System, the concept of the established of "Bait-ul-Maal" is given. "Bait-ul-Maal" is considered as Royal Treasury and it is utilized for the welfare of common people.
  - The system of collecting Zakaat and Ushr is included in Islamic Economic System. Both Zakaat and Ushr help in reducing class differences in society.
  - The payment of "Fitra" before the obligation of Eid-ul-Fitr prayer is also a unique characteristics of Islamic Economic System. The payment and collection of Fitra is a way of collecting funds for helping the poor and needy.
  - The payment or receiving of interest is totally restricted in Islamic Economic System.
  - Though private ownership and capitalism is allowed in Islamic Economic System but the concentration of wealth is restricted. The circulation of wealth is kept in control by the application of Zakaat, Ushr, Sadqa, Fitra and Qarz-e-Hassana.





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** What is meant by Evolution of Economic Life? Describe the different stages of Economic development. Describe in detail the various stages of the Evolution of Economic Life.

**Ans:** Evolution of Economic Life

A long historical period and developmental process is associated to the present economic condition and prosperity of man. Man was not much civilized and his life was not so comfortable in the beginning of history. The gradual changes which occurred with respect to history through which the economic activities of man gradually started to come in organized form are collectively known as Evolution of Economic Life.

### The Stages of Economic Development or Evolution of Economic Life

The stages of Economic Development or the stages of Evolution of Economic Life can be described as following.

#### **(i)** Hunting and Gathering Stage

Since economic life is associated to the activities which are done for acquiring the necessities of life, hence the first stage of the evolution of economic life was named as Hunting and Gathering Stage. It is the stage when man was totally unaware of civilized life. He lived in caves and obtained his food from hunting of animals. Hunting was the origin of economic life, it trained man in capturing the animals by using various methods. He also invented tools for hunting by using wood, metals and stones. Hunting was an uncertain way getting food. Thus for many a time, he was left without food. This condition led him to store the animals. He started to gather the animals by catching them alive. Gathering of animals became an organized economic activity and the storage of animals was considered as the wealth.

#### **(ii)** Pastoral Stage

Hunting the animals alive and the storage of these useful animals protected man from the uncertainty condition of the availability of food but the storage of animals also created the problems of care and feeding the animals. Most of the animals gathered were cattle like goats, sheep, cows and horses, so at least grass and water was necessary to feed these animals. This condition developed another economic activity and man started to roam from place to place along with his animals in search of grassy fields and water. The grassy fields are called Pastures therefore this stage is known as Pastoral Stage. This stage organized man in groups, families and tribes. Man used some animals for travelling thus he learnt transportation. He started to collect precious stones, metals, food, clothing and tools for catching animals. The grassy field and the number of animals which belonged to a family or tribe considered as their private property.

#### **(iii)** Agriculture and Handicraft Stage

Man was passing a wandering life during the Pastoral Stage, the wandering process from one place to another was troublesome for both man and animals. It was an unsecured and unsafe process because it had no authority of ownership related to a piece of land. When man found a regular supply of water and natural vegetation near the river banks, he settled down there in groups. He learnt the process of growing plants from nature. Thus economic activities were started to link with the processes of cultivating various kinds of food grains, crops, vegetables and fruits. In this period man also learnt to domesticate wild animals and used them in the process of growing plants. He also started to use animals for transportation. All these activities related to growing plants and crops are collectively known as Agriculture. Some skillful craftsmen also started to prepare things, tools, toys, clothes and utensils and all these are taken as handicrafts. Thus Agriculture and Handicraft Stage proved to be well organized stage of economic development. Villages, towns and cities developed in this stage. Agriculture and Handicraft stage organized



human economic activities and classified them into various kinds. It gave birth the following economic concepts and motives.

- |                                  |   |
|----------------------------------|---|
| (i) Occupational division        | (ii) Division of labour in tribes         |
| (iii) Economy of feudal exchange | (iv) Establishment of domestic industries |
| (v) The concept of ownership     |   |

#### (iv) Industrial Stage

During Agriculture and Handicraft stage, man started to pass a settled and organized life. The economic activities were also increased in number because of the increase in human needs. The handicrafts which were introduced in the stage established the handicraft system which opened a way of the establishment of small-scale production at domestic level. A remarkable development in production, consumption and exchange occurred with the introduction metal coins as currency. The occupational structure and the division of labour started to develop rapidly during this period which opened the way for the industrial stage.

The invention of various kinds of machines and a well-organized monetary system both helped small scale production at domestic level turned into large scale production in factories. This industrial revolution is taken as industrial stage. Industrial Stage not only increased the production but it also developed many new ways marketing, advertisement, banking, transportation and communication.

**Q.2** Elucidate the main causes of the origin of Industrial Stage. Also describe the salient features of the Industrial Stage.

**Ans:** Industrial Stage

Industrial Stage is the last stage of the evolution of economic life which not only revolutionized the production but also classified the economic activities in two main sectors out of them one is the production sector while the other is service sector.

#### Historical Background

Man obtained energy from matter in the form of kindling fire. It was a time when man lived in caves and forests and used the food made of flesh of hunted animals. He also used the roots, leaves, bark, seeds and wild berries of plants as food. For hunting animals he parted stones an animals and struck them with heavy branches of trees. Next he invented bows and arrows and other weapons like spears and lances. Later he started to use the fruits and berries and edible seeds as food. He also started to store and preserve the seeds. This is called as Hunting and Gathering Period. As the time passed man entered into Agriculture and Handicraft Period. He learnt to grow the plants. Domestic handicrafts were also started to manufacture at homes. In between the Hunting Period and Agriculture Period, man tamed one offsprings of animals and raised them. This was called Animal Rearing Period or Animal Husbandry Period. He used their flesh, milk and hides and used them as beasts of burden such as donkeys and horses.

#### The Main Causes of the Origin of Industrial Stage

With the increase in human needs when handicrafts become short as compared to their needs, domestic industries on small-scale started to grow, all the family members became busy to do some work, these cottage or small-scale industries opened the ways industrial stage. After the invention of various machines large factories were established for the production. Thus many industries like cloth industry, glass industries, leather industry, sugar industry and iron industry came into being for the large scale production.

#### The Salient Features of Industrial Stage

The salient features of Industrial Stage can be described as following.

- (i) The invention of wheel is regarded as the milestone in the development of industrial stage. Wheel is the basic component of various kinds of machines. Its first simple machine were invented and as time passed more complicated and sophisticated machines invented.
- (ii) Man learnt the use of the energy of running water. He made water wheels to grind corn or maize. Hydroelectricity was produced through the energy of running water.





- (iii) Wind mills were invented to grind maize and food grains such as wheat, barley and millet.
- (iv) Here a scientist invented the steam engine which runs or functions using the power of steam as kinetic energy. In 1882, Rudolf Diesel invented an engine worked using the force produced by bursting gas by explosion; this is produced by converting gasoline.
- (v) During industrial stage, production, consumption and exchange processes all became well-organized and thus many new ways of development opened for man.

**Q.3 Define Capitalism. Describe the merits and demerits of Capitalism.**

**Ans: Capitalism**

A system of economy in which all individuals are allowed to use the means of production by using their capital and management skills for the purpose of earning more and more profit is called as Capitalism.

### **Characteristics of Capitalism**

The characteristics of capitalism can be described as following.

#### **(1) Merits or Advantages of Capitalism**

The merits or advantages of capitalism are following.

- (i) Capitalism gives the right of private ownership to every individual.
- (ii) Under this system the land of the state, factories, houses and business institutions all are used freely under private ownership.
- (iii) Every individual of the state has a right to establish his own business and to earn profit. There is no share of government in the profit, however the government implements taxes on income.
- (iv) In capitalism, there is a competition in the market, therefore the consumers get standard commodities at affordable prices.
- (v) In capitalism, the prices are determined on the basis of demand and supply and the liking and disliking of the consumers is kept at first place in the process of production.

#### **(2) Demerits or Disadvantages of Capitalism**

The demerits or disadvantages of capitalism are following.

- (i) In capitalism, the capital acquires the central position, therefore the capitalists get their hold in business.
- (ii) Capitalism generally produces unequal distribution of wealth and a tendency of the accumulation of wealth in few hands is occurred.
- (iii) The advertisement is taken as necessary for the progress of a business, therefore huge amounts of money are spent for making propaganda through advertisement.
- (iv) "Interest" is given much importance in capitalism which creates an atmosphere of the exploitation of people in a society.
- (v) Unlawful profit earning, storage and lust for wealth all become common in the economy a business under capitalism.

**Q.4 Define Socialism. Describe merits and demerits of Socialism.**

**Ans: Socialism**

A system of economy in which all means of production remain under the ownership of the state and the government uses them through specific plans in order to produce welfare of the nation is called Socialism.

### **Characteristics of Socialism**

The characteristics or features of socialism can be described as following.

#### **(1) Merits or Advantages of Socialism**

The merits or advantages of socialism are following.

- (i) In socialism, the government has an authority of utilizing the means of production, hence the government organizes business by keeping a view of public welfare.
- (ii) Production does not relate to profit earning but its only purpose is of public welfare.



- (iii) The prices are determined by the government according to the purchasing power of a common man.
- (iv) Socialism provides opportunities to work for every individual according to capability of doing work thus it reduces class differences and unemployment.
- (v) It is an interest free economy system and it has no concept of advertisement.

**(2) Demerits or Disadvantages of Socialism**

- (i) The demerits or disadvantages of socialism are following.
- (ii) Liking or disliking of consumers is not given importance in socialism.
- (iii) Private property, choice of profession, establishment of personal business and private production are not allowed in socialism.
- (iv) The government controls all kinds of production, commerce and trade and the individuals are not allowed to do so by themselves.
- (v) There is no competition in markets, therefore the bureaucracy get hold in production and market.
- (vi) There is a security of employees in public sector which reduces their efficiency and spirit of doing work.

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**IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) In this system, every individual has the right to do his own business and earn profit:  
(a) Socialism (b) Capitalism (c) Islamic System (d) Economic System
- (2) In socialism, production resources are owned by:  
(a) Army (b) Police (c) Individuals (d) Government
- (3) Capitalism is based on:  
(a) Wealth (b) Interest (c) Private Property (d) None of these
- (4) The most important invention of industrial revolution is:  
(a) Motor Car (b) Bicycle (c) Steam Engine (d) Axe
- (5) In the beginning man was unknown to:  
(a) Hunger (b) Thirst (c) Movement (d) Civilization
- (6) It is considered as the first stage of the evolution of economic life:  
(a) Hunting and Gathering (b) Pastoral Stage  
(c) Industrial Stage (d) Handicraft Stage
- (7) This stage started when man began to store animals for solving his food problems:  
(a) Hunting Stage (b) Stone Stage  
(c) Pastoral Stage (d) Agriculture Stage
- (8) In gathering stage man used to gather these for solving his food problems:  
(a) Precious Stones (b) Gold Coins  
(c) Animals (d) Plants
- (9) Man was inclined to pass a nomadic life with his animals during:  
(a) Hunting Stage (b) Pastoral Stage (c) Agriculture Stage (d) Handicraft Stage
- (10) Almost all ancient civilization of the world had their association with:  
(a) Ponds (b) Pastures (c) Rivers (d) Canals
- (11) Moen-Jo-Daro civilization was situated near the:  
(a) River Ravi (b) River Indus (c) River Nile (d) River Tigris
- (12) Tribal concept of occupational division of labour occurred during the stage:  
(a) Hunting and Gathering Stage (b) Animal Rearing Stage  
(c) Pastoral Stage (d) Agriculture and Handicraft Stage
- (13) During Hunting and Gathering stage, the storage of these considered as wealth:  
(a) Metals (b) Animals (c) Stones (d) Seeds
- (14) Ploughs, sickles, axes and spades were considered as these in Agriculture and Handicraft Stage:  
(a) Tools (b) Commodities (c) Ornaments (d) Handicrafts
- (15) It is the main concept of agriculture stage:  
(a) Paper money (b) Animal husbandry (c) Cultivation (d) Division of labour
- (16) Feudal exchange economy was introduced in this stage of evolution of economic life:  
(a) Hunting Stage (b) Industrial Stage (c) Pastoral Stage (d) Agriculture Stage
- (17) Industrial Stage began with the establishment of:  
(a) Warehouses (b) Advertising agencies  
(c) Banking Sector (d) Domestic Industries
- (18) A revolution in the economic life started with the beginning of:  
(a) Pastoral Stage (b) Industrial Stage  
(c) Stone age (d) Agriculture Stage
- (19) The establishment of various kinds of big factories for manufacturing cloth, glass, leather, iron and sugar is related to:  
(a) Handicraft Stage (b) Agriculture Stage  
(c) Industrial Stage (d) Hunting Stage





- (20) The number of principles which are commonly used for production:  
 (a) Two (b) Three (c) Four (d) Five
- (21) The economic system which is related to private ownership is:  
 (a) Naturalism (b) Capitalism (c) Spiritualism (d) Socialism
- (22) The system in which all resources of production are considered as collective ownership of the state of nation is called:  
 (a) Materialism (b) Socialism (c) Pragmatism (d) Capitalism
- (23) Competition for production and sale is a characteristics of :  
 (a) Interest free system (b) Monopolistic System  
 (c) Capitalism (d) Socialism
- (24) Profit earning is not a purpose in:  
 (a) Service Industry (b) Socialism  
 (c) Capitalism (d) Competition
- (25) Private ownership is not allowed in:  
 (a) Naturalism (b) Feudal Exchange System  
 (c) Socialism (d) Capitalism

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## CHAPTER 2

# THE ECONOMIC LEGACY OF PAKISTAN

### IMPORTANT SHORT QUESTIONS & ANSWERS

**Q.1** Write down any five economic problems of Pakistan.

**Ans:** Economic Problems of Pakistan

Five economic problems of Pakistan are following.

(i) Agricultural Problems of Pakistan

Pakistan is basically an agricultural country but unluckily the agriculture sector in Pakistan is not developed and the country could not attain self sufficiency in main food crops till now.

(ii) Low Rate of the Capital Formation

Pakistan, due to its lowest rate of capital is considered as a capital deficient country. It is mainly due to the poorest rate of saving. The lowest rate of capital formation produces its effects on developmental plans in Pakistan.

(iii) Industrial Backwardness

Pakistan is facing the problem of industrial backwardness. The industrial units in Pakistan are not well-organized due to energy crisis and unavailability of skilled labour.

(iv) Backwardness of Trade

Trade in Pakistan is also not well-organized. The production, consumption, transportation and marketing facilities for trade are insufficient.

(v) Unfavourable Balance of Payments

Pakistan always suffers from a large deficit in balance of payments which creates a number of other economic problems.

**Q.2** Name the problems that Pakistan faced soon after its independence.

**Ans:** The Problems Faced by Pakistan soon After its

Establishment

The problems faced by Pakistan soon after its independence or establishment were following.

(i) Agricultural Backwardness

(ii)

Industrial Backwardness

(iii) Migration and Population Pressure

(iv)

Backwardness of Trade

(v) Backwardness of Banking System

(vi)

Low per Capita Income

**Q.3** Describe the Economic Effects of the British occupation in the sub-continent in five sentences.

**Ans:** Economic Effects of the British Occupation in the

Sub-Continent

The economic effects of the British occupation in the sub-continent can be described as following.



- (i) The British had established the East India Company for obtaining economic purposes. They purchased raw materials at low prices then after producing commodities sold them at high prices.
- (ii) They kept the Muslim majority areas in Punjab backward with respect to agriculture and industry in order to organize their army from the selection of good soldiers in these areas.
- (iii) The British and the Hindu both adopted such steps in the Muslim majority provinces so that the Muslims could not get progress and remained economically backward.
- (iv) The industries were not established in the Muslim majority areas while the various steps were taken for the industrial progress in Hindu-majority areas during the British rule in the Sub-Continent.
- (v) The British also constructed roads, railways, canals and tube-wells in the Hindu majority areas but ignored the Muslim majority areas in order to keep the Muslims economically backward.

**Q.4** Write down five sentences on Economic conditions of Pakistan at the time of its establishment.

**Ans:** The Economic Conditions of Pakistan at the Time of its Establishment

The economic conditions of Pakistan at the time of its establishment can be described as following.

- (i) At the time of establishment of Pakistan, there were neither industrial units nor developed agriculture sector in the areas which included in Pakistan.
- (ii) There were few broken roads and few useless railway lines existed in Pakistan at the time of its establishment.
- (iii) The Muslims were backward with respect to education, therefore only a few educational institutions were existed at that time. The banks and other financial institutions were run by the Hindus.
- (iv) When the Hindu Capitalists shifted with their capital to India, the economic conditions of this newly born state grew bad to worse.
- (v) It was the desire of the enemies that Pakistan would not last for a long period, but by the grace of Allah and with untiring labour, good thinking and love for the country of Pakistani nation made it possible that Pakistan achieved better position in the world. The economic condition of Pakistan is also better than many other developing countries.

**Q.5** Write down five causes of Agricultural Backwardness of Pakistan.

**Ans:** The Causes of Agricultural Backwardness of Pakistan

The five causes of Agricultural backwardness of Pakistan are following.

- (i) Literacy rate in Pakistan is quite low. Majority of the farmers in Pakistan are not educated. They have little knowledge about modern ways of farming.
- (ii) The structure of the agriculture in Pakistan is based on Landlordism. The landlords or Zameendars have the ownership of million acres of land. They get cultivated their lands by the poor and helpless cultivators on hard terms and conditions due to which the efficiency of labour of cultivators becomes eliminated.
- (iii) In Pakistan, the modern equipments and modern methods of cultivation are used on a very limited scale. Good quality of seeds and fertilizers are not used for the production, therefore per acre production remains very low.
- (iv) There is no proper management in Pakistan of saving the crops from diseases. Lack of organized marketing for the purchase and sale of agriculture goods is another reason for its backwardness.
- (v) The distribution of agriculture loans in Pakistan is unsatisfactory. Small cultivators who need more agricultural loans are not able to receive them easily.



**Q.6 Write down any five causes of Industrial Backwardness of Pakistan.**

**Ans: The Causes of Industrial Backwardness of Pakistan**

Five causes of Industrial backwardness of Pakistan can be described as following.

- (i) The cost of production in the industries of Pakistan is very high, therefore they are facing backwardness.
- (ii) The main cause of the industrial backwardness in Pakistan is the limited country market for the consumption of industrial goods which is great obstacles for the extension and progress of industries in Pakistan.
- (iii) Capital is very necessary for the progress of industries but Pakistan always faced the shortage of capital in this respect. People in Pakistan do not cooperate in purchasing domestic production, the reason for this, the cost of production of domestic commodities is high with less standard quality.
- (iv) The basic energy and power resources like coal, iron, petrol and others are required for industrial progress but they are not available in Pakistan in large quantities.
- (v) In Pakistan there is a shortage of skilled and technical labour working for industries.

**Q.7 Mention or state any five causes of decreasing per capita income in Pakistan. (OR) State any five causes of low per capita income in Pakistan.**

**Ans: The Causes of Low per Capita Income in Pakistan**

Five causes of low per capita income in Pakistan can be described as following.

- (i) The economy of Pakistan is agriculture based. 25% of the Gross National Product (GDP) is gained from agriculture but the agriculture in Pakistan depends upon seasonal and climatic changes, therefore agricultural efficiency falls, due to which per capita income is also decreased.
- (ii) The increasing and rapidly growing population of Pakistan is also a cause of low per capita income in Pakistan. 3% population of Pakistan is increased every year as compared to that of productive means and the opportunities of employment are very short.
- (iii) In Pakistan, the deficiency of capital is common because of low rate of savings, this is also a cause of decreasing per capita income.
- (iv) The prices of commonly used commodities have become high due to inflation from the last twenty years, there is scarcity of capital in the economy which becomes a cause of low per capita income in Pakistan.
- (v) The means of transportation in Pakistan are undeveloped. They produce hindrance in the mobility of labour as well as production. The presence of undeveloped means of transportation is a cause of decreasing per capita income in Pakistan.

**Q.8 Describe the causes of industrial backwardness in Pakistan at the time of the Partition of the Sub-Continent.**

**Ans: Industrial Backwardness of Pakistan**

The causes of industrial backwardness of Pakistan at the time of the partition of the sub-continent were following.

- (i) The British Government, from the very beginning adopted the policy of not establishing industries in the Muslim majority areas. Due to industrial policy of the British made this region industrially backward.
- (ii) Due to backwardness of industrial sector, the capitalists were hesitant to invest their capitals, thus industrial sector remained backward for many years.
- (iii) Natural resources like coal, gas and mineral play very significant role in the development of industries. Though these resources were present but by that time they were undiscovered. Due to unavailability of natural resources, the industrial sector could not developed.



- (iv) There were few industries in Pakistan at the time of partition. People were not interested in industrial and technical professions, so lack of availability of skilled labour caused the industrial backwardness.
- (v) Better transportation and communication systems play very important role in the development of industries. Thus the industrial sector remained undeveloped due to poor transportation and communication systems.

**Q.9** *The agricultural sector was backward at the time of the establishment of Pakistan. Elucidate the reasons of the backwardness of Agricultural Sector.*

**Ans:** **Backwardness of Agricultural Sector**

The agriculture sector in Pakistan was backward at the time of its establishment because of the following reasons.

- (i) The land tenure system in Pakistan was very defective. The one-fifth land of the total area of Punjab and 50% cultivable land in Khyber Pakhtun Khwa was the property of landlords. There was 8.6 million acres of agricultural land in Sindh. Out of it 1.1 million acres was owned by 124 Jagerdars and 6 million acres of land was the property of only 3000 zamindars.
- (ii) The irrigation of crops was done by means of wells and canals, while the lands in "Barani dreas" were left on the mercy of uncertain rainfall. A large portion of agricultural land was also reminded un-cultivated.
- (iii) The use of old and out of date agricultural tools was common, therefore the agriculture could not got a progress for long.
- (iv) At the time of establishment of Pakistan, neither best quality of seeds were available nor the medicines were available for the cure of crop diseases. Thus because of the sub-standard inputs, the agriculture sector remained backward.
- (v) The marketing of crops was done through improper and ineffective methods at the time of establishment of Pakistan. There was neither storage facility of crops nor organized markets were existed for their sale. In such conditions, the farmers did not take any interest to increase their production.

**Q.10** *The Trade Sector was undeveloped at the time of the establishment of Pakistan. State the causes the backwardness of Trade.*

**Ans:** **Backwardness of Trade**

Trade Sector was extremely backward at the time of establishment of Pakistan. The causes of backwardness of trade can be described as following.

- (i) The country was mainly related to agriculture and the people were inclined towards the cultivation. They had neither capital nor experience for trade, so they used to earn their living through cultivation.
- (ii) The British were responsible to end the Muslim Rule in India, they always took the Muslims as their strongest rivals. They did not like that the Muslims to be stable and prosperous in any way.
- (iii) The British Government Policy was that the Muslim majority areas like Sindh, Punjab, Khyber Pakhtun Khwa and Baluchistan should be kept economically backward because of using the people from these areas in defence services.
- (iv) The Hindu traders and capitalists migrated to India after partition.
- (v) The refugees who entered Pakistan from India were skilled and educated but they had no capital for the arrangement of business.



**Q.11** Was the number of Banks and their efficiency satisfactory, at the time of the establishment of Pakistan? If not; write down its causes.

**Ans:** **Backwardness of Banking System**

The Banking System and its efficiency was not satisfactory at the time of the establishment of Pakistan. The cause of the backwardness of Banking System can be described as following.

- (i) Trade as well as commercial banks were mostly owned by the Hindus. Though, the Muslims were also traders and businessmen, but they were handicapped by lack of capital.
- (ii) The Hindus were more experienced and wealthy than the Muslims that they paid more attention towards trade, business and banking system.
- (iii) There were 631 Scheduled Banks in Pakistan at the time of its establishment but afterward they began to close due to lack of capital.
- (iv) By that time, there was no central bank in the country. So, "The Reserve Bank of India" was constructed to perform the duties as the Central Bank of Pakistan also. The Bank took no interest in Pakistan's Economy and always ignored the financial benefits of Pakistan.
- (v) Under these circumstances, the establishment of a Central Bank was badly needed, so "The State Bank of Pakistan" was established, inaugurated by the Quaid-e-Azam Muhammed Ali Jinnah on 1st July, 1948. The bank issued currency first time in October, 1948.

**Q.12** Describe the effects of the Migration of Population on Pakistan's economy at the time of the establishment, Describe these effects in brief.

**Ans:** **Migration and Population Pressure on Pakistan's Economy**

The Economic condition of a country is affected by the increase and decrease in population. The migration of population at the time of establishment of Pakistan produced effects on the economy of Pakistan, these effects can be described as following.

- (i) Besides the other causes of economic disparity, the Migration of Indian Muslims also created serious disturbance in Pakistan's economy.
- (ii) Approximately 7.5 millions refugees left India and came Pakistan in order to seek shelter, the population of Pakistan increased rapidly due to such a big migration.
- (iii) The migration of homeless and helpless people in a large number created many economic and social problems for the administrative machinery of Pakistan.
- (iv) Though the refugees were educated and skilled but they had no wealth or capital to survive with their own struggle.
- (v) By that time, the administrative machinery of Pakistan was not in such a position to arrange quickly food, health, employment and shelter for a large number of refugees.





## **IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS**

**Q.1** Define per Capita Income. Describe the causes of Low Per Capita Income in Pakistan in detail. Suggest suggestions or steps to increase Per Capita income.

**Ans:** **Per Capita Income**

The ratio of the national income to the total population of a country is considered as Per Capita Income. It is calculated by the division of Net National Income by the total population of a country.

$$\text{Per Capita National Income} = \frac{\text{Net National Income}}{\text{Total Population of Country}}$$

### **The Cause of Low Per Capita Income in Pakistan**

Per Capita Income in Pakistan is very low because of very low standard of living of the citizens of Pakistan. There are many causes or reasons of the low per capita income in Pakistan some of them are following.

**(i) Agricultural Economy**

Pakistan is mainly an agricultural country. 25% of Net National Product is obtained from agriculture but the agriculture depends upon uncertain condition of the seasonal and climatic changes which makes the efficiency of the agriculture uncertain due to which the per capita income is also decreased.

**(ii) Pressure of Population**

The rapidly increasing population in Pakistan is also a cause of low per capita income. 3% population is increased in Pakistan every year. The productive means and the opportunities of employment are far less as compared to that of growing population.

**(iii) Lack of Natural Resources**

Pakistan's economy is basically agricultural-based. So there is a shortage of availability of natural resources. Though many steps have been taken to solve the problems of natural resources but lack of natural resources has become a cause of decreasing per capita income.

**(iv) Lack of Capital**

The efficiency of savings in Pakistan is very low, the prices of general items have been increased due to inflation in Pakistan, thus capital formation process in Pakistan is of very poor type due to low rate savings which also decreases the Per Capita Income.

**(v) Unequal Distribution of Wealth**

In Pakistan, the wealth has been accumulated within a few hands. A large portion of the total population shares in wealth with few percent. The whole society has been divided into two classes wealthy and poor. This unequal distribution of wealth is also a cause of decreasing per capita income.

### **Suggestions and Steps to Increase Per Capita Income**

Following suggestions or steps can be taken to increase the per capita income in Pakistan.

- (i) It is necessary to end of the feudal system, so that true rewards should be given to the efficiency of labour.
- (ii) Steps should be taken to stop the rapid population growth in Pakistan.
- (iii) For increasing per capita income it is necessary to improve the standard of education and to develop the use of technology in various fields of economy.
- (iv) The steps should be taken for the equal distribution of wealth.
- (v) To improve the production in both agriculture and industrial sectors and steps should be taken for the encouragement of foreign investment.





Q.2 Write the causes of Agricultural Backwardness of Pakistan in detail.

**Ans: The Causes of Agricultural Backwardness of Pakistan**

When Pakistan was came into being on August 14, 1947, the economic condition of the country was very weak. The people were suffering from poverty and misery. By that most of the population earned livelihood through agriculture and cultivation. Per hectare yield in agriculture was very low. Though Pakistan being an agricultural country but faced the problem of food deficiency. Due to the backwardness of Agriculture Sector, the agricultural and economic conditions of the country were not satisfactory and these problems were the part of economic legacy because of the partition of the Sub-Continent. The causes of Agricultural Backwardness of Pakistan can be described as following.

**(i) Land Tenure System**

Land Tenure System in Pakistan is always remained as the big cause of the agricultural backwardness in Pakistan. The greater part of the cultivable land is the property landlords. A number of poor farmers work on these lands on very poor terms and conditions. Due to this unfair distribution of land, the farmers do not work zealously therefore per acre production always remains low.

**(ii) Irrigation System**

The irrigation system in Pakistan is also very defective. At the time of independence wells and canals were used as the means of irrigation, while the "Barani lands" were left usually on the mercy of uncertain rainfall. After the establishment of canal irrigation system, the problems of water logging and salinity appeared. Almost 80 thousand acre of cultivable land is being destroyed by it every year. It also reduces the yield per acre. It produces its effect on many crops like wheat, sugarcane, grams, tobacco, vegetables and fruits in Punjab and Sindh.

**(iii) Sub-Standard Inputs**

For obtaining better yield from land cultivation, the use of fine quality of seeds, fertilizers and pesticides is necessary. There were no facilities of providing good quality of seeds and fertilizers at the time of the partition of the Sub-Continent. By that time, the farmers were not able to acquire medicine to control crops diseases, Sub standard inputs like inferior type of seeds and animal manure were used for the process of cultivation. Even now sub-standard inputs are used for the process of cultivation. Thus the use of sub-standard inputs is a cause of the backwardness of agriculture in Pakistan.

**(iv) The Use of Old Equipments for Cultivation**

The equipments and machinery for cultivation have great importance for increasing agricultural production. By the use of modern equipments and machinery, the advanced countries have remarkably increased their yield per acre. The farmers in Pakistan use generally old and out of date implements for the process of cultivation. The use of Plough, Sohaga, Sickle, Khurpi with a pair of bullock is common in the agriculture of Pakistan. Though the use of modern equipments and machinery has been started but it is limited till now, thus these old implements are also responsible for the agricultural backwardness in Pakistan.

**(v) Defective System for the Sale and Purchase of Agricultural Commodities**

There was no proper management for the sale and purchase of the agricultural commodities at the time of the establishment of Pakistan. Neither there was a facility of agricultural warehouses nor organized markets existed for the sale of agricultural produce. The farmers had to face a number of problems to get the due price for their agricultural produce. Even now the procedure of agricultural marketing is very complicated in which middlemen get benefits but the farmers cannot achieve the due right of their labour. In such condition, the farmers do not take interest to increase their production and per acre production remains very low.



**(vi) Land Fragmentation**

Small and scattered holdings are also responsible for low yield per hectare. The laws of inheritance prevalent in the country is one of the decisive contributing factor for the division and sub-division of holdings into small and scattered units. Due to this situation, modern techniques of cultivation cannot be introduced. The land fragmentation is also a cause of agricultural backwardness of Pakistan.

**Q.3 Describe in detail the causes of Industrial Backwardness in Pakistan.**

**Ans: The Causes of Industrial Backwardness in Pakistan**

There were only few textile mills and some units of cement producers in Pakistan at the time of its establishment. However, a few small factories existed which used agricultural raw material for manufacturing process. The factories of cotton and jute, some flour and rice mills and oil purchasing plants were including among those small-scale production units. The industrial sector was very poor and even now it is unprogressive. The causes of industrial backwardness of Pakistan can be described as following.

**(i) Industrial Policy of the British Government**

It was the policy of the British Government from the very beginning that industries not to be established in the Sub-Continent. The British Government wanted to keep the Sub-Continent as an agricultural land because of the supply of raw materials to the factories in England was made from the Sub-Continent. The establishment of industries in the Sub-Continent was a danger for the survival of factories and industries running in Britain. Due to this policy of the British Government this region was undeveloped with respect to industries. When Pakistan came into being in the result of the partition of the Sub-Continent, so the areas which included in Pakistan were also undeveloped with respect to industries. Only 1406 industrial units were existed at the time of establishment of Pakistan out of them just 24 units were associated to large scale production.

**(ii) Scarcity of Capital**

Capital has basic importance for the industrial progress. The capital is either provided by private capitalists or the capital is formed as loan from financial institutions. At the time of establishment of Pakistan there were no financial institutions to support the industries. Moreover the investors from private sector were also hesitant to invest their capital because of uncertain amount of profit. Though many financial institutions have been established in Pakistan now but the process of capital formation for the development of industries is still very slow and difficult. This scarcity of capital is the cause of industrial backwardness in Pakistan.

**(iii) Unavailability of Natural Resources**

Natural resources like coal, gas, petroleum etc. play a significant role in the development of industries. Though Pakistan is rich in natural resources but due to economic and political policies of the British Government these resources were not discovered by that time. After the establishment of Pakistan some quantity of natural resources was discovered but their production through certain process was very expensive. Pakistan is still facing the problem of the shortage of natural and energy resources. This unavailability of natural resources is a great obstacle in the way of the development of industries in Pakistan.

**(iv) Lack of Skilled Labour**

There were very industries existed at the time of establishment of Pakistan, so the people were not interested in industrial and technical professions. When industrial structure was build up a new, the administrative machinery of Pakistan had to import highly trained labour, like technicians, engineers and skilled workers from other countries. Even now, Pakistan is facing the problem of shortage of trained and skilled labourers in industrial sector, so the unavailability of skilled labour is the cause of industrial backwardness in Pakistan.

**(v) Lack of Transportation and Communication Facilities**

The means of transportation and communication play very important role in the development of industries. Their importance cannot be neglected from the raw materials to the production of furnished goods. Raw materials are brought to the factories through means of transportation and these means of transport also used for carrying goods from factories to the markets. The means of transport like roads, railways, trucks and others were very few before the establishment of Pakistan in this region. Though transport and communication facilities are available in Pakistan but both transport and communication systems are still undeveloped and they do not provide their services to industrial sector fully, so these defective transport and communication systems are also a cause of industrial backwardness in Pakistan.

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## IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)

**Q.1** Choose the correct answer for each of the following from the given options.

- (1) Pakistan is a country of:  
(a) Agriculture (b) Industry (c) Trade (d) Economic
- (2) Per capita income in Pakistan is very:  
(a) Low (b) High (c) Consistent (d) Attractive
- (3) The use of outdated tools is one of the cause of backwardness of our:  
(a) Agriculture (b) Industry (c) Banking System (d) Trade
- (4) The British considered the Sub-Continent for the consumption of their commodities as:  
(a) Cultivable land (b) Geographical region  
(c) Profitable market (d) Tourism place
- (5) The British always kept the Muslim majority areas of the Sub-Continent economically:  
(a) Upgraded (b) Developed (c) Backward (d) Prosperous
- (6) In the Sub-Continent, the British always considered this nation as their strongest rivals:  
(a) The Hindus (b) The Muslims (c) The Sikhs (d) The Marhatas
- (7) At the time of the British rule, the Sub-Continent was a big source of providing:  
(a) Machinery (b) Manpower (c) Raw material (d) Furnished goods
- (8) The British kept the Muslim majority areas of the Punjab economically backward in order to:  
(a) develop industries (b) develop banking  
(c) obtain minerals (d) recruit soldiers
- (9) The British left the Muslim majority areas undeveloped and associated them specially for:  
(a) the production of minerals (b) the production of Petroleum  
(c) the production of grain and recruitment centre (d) the establishment of public buildings
- (10) The Muslim majority areas remained always backward economically due to collective conspiracy of:  
(a) Political leaders (b) Religious authorities  
(c) Industrialists (d) Both the Hindus and the British
- (11) The British established East India Company for obtaining:  
(a) Agricultural purposes (b) Political benefits  
(c) Trade benefits (d) Religious benefits
- (12) Inspite of being an agricultural country, at the time of establishment, Pakistan had to face the problem of:  
(a) Water irrigation (b) Soil fertility  
(c) Food deficiency (d) Unavailability of farmers
- (13) These were the main sources of irrigation at the time of establishment of Pakistan:  
(a) Tube Wells (b) Wells and Canals  
(c) Rivers and dams (d) Karez and lakes
- (14) One-fifth of the total cultivable land was the property of landlords in:  
(a) Sindh (b) Kashmir (c) Punjab (d) Baluchistan
- (15) 50% area of the total cultivable land was the property of wealthy landlords in:  
(a) Gilgit (b) Baltistan (c) Khyber Pakhtunkhwa (d) Sindh
- (16) In the beginning the cultivable lands were left on the mercy of uncertain rainfall:  
(a) Deserted lands (b) Kharani lands (c) Barani lands (d) Flowery lands
- (17) According to a report of the year 1955, 8.6 million acre agricultural land was located in:  
(a) Sindh (b) Punjab (c) Khyber Pakhtun Khwa (d) Baluchistan
- (18) In Sindh, 1.1 million acres of agricultural land was the property of only:  
(a) 200 landlords (b) 180 landlords (c) 150 landlords (d) 124 landlords





- In Sindh, 3000 Zamindars were the owner of agricultural land whose total area was
- (19) about:  
 (a) 2.2 million acres  
 (b) 3.2 million acres  
 (c) 5.4 million acres  
 (d) 6 million acres
- (20) The advanced countries have increased their agricultural production because of:  
 (a) Old techniques  
 (b) Animal farming  
 (c) Foreign policy  
 (d) Modern implements
- (21) Coal, gas and mineral oil are considered as:  
 (a) Agricultural resources  
 (b) Industrial resources  
 (c) Commercial resources  
 (d) Natural resources
- (22) The use of Sub-Standard inputs is the cause of backwardness of:  
 (a) Land Tenure System  
 (b) Irrigation System  
 (c) Transport System  
 (d) Agricultural System
- (23) The division and sub-division of cultivable land into small holdings is called:  
 (a) Land Cultivation  
 (b) Land Picking  
 (c) Land Accumulation  
 (d) Land Fragmentation
- (24) It is responsible for small holdings and fragmentation of cultivable lands in Pakistan:  
 (a) Culture  
 (b) Law of Power  
 (c) Law of Inheritance  
 (d) Law of Society
- (25) Food deficiency problem was occurred in Pakistan at the time of independence because of:  
 (a) Agricultural backwardness  
 (b) Industrial backwardness  
 (c) Trade backwardness  
 (d) Political backwardness
- (26) It was the British Policy to leave them on the fate of agriculture:  
 (a) Hindu majority areas  
 (b) Muslim majority areas  
 (c) Muslim minority areas  
 (d) Sikh majority areas
- (27) The British Government always avoided to establish industries in the Sub-Continent because:  
 (a) They wanted to establish buildings  
 (b) They wanted to make scientific research  
 (c) They wanted to flourish their own industries  
 (d) They wanted to preserve the Indian culture
- (28) It has the basic importance for the development of industries:  
 (a) Water  
 (b) Policy maker  
 (c) Agricultural background  
 (d) Capital
- (29) It is commonly obtained through private investors or through borrowing loans from financial institutions:  
 (a) The right of ownership  
 (b) Rent  
 (c) Capital  
 (d) Interest
- (30) The industrial sector could not make a remarkable progress in the Sub-Continent because of unavailability of:  
 (a) Natural resources  
 (b) Capital  
 (c) Skilled labour  
 (d) All of these
- (31) These play important role in shifting raw material to factories and furnished goods to market:  
 (a) Means of capital  
 (b) Means of Transportation  
 (c) Means of power  
 (d) Natural resources
- (32) Roads, railways, trucks, buses, aeroplanes etc. are considered as:  
 (a) Means of saving labour  
 (b) Means of saving time  
 (c) Means of transportation  
 (d) Means of manufacturing
- (33) The theory of population was presented by:  
 (a) Karl Marx  
 (b) Robert Malthus  
 (c) Lamarck  
 (d) Professor Marshall
- (34) The number of refugees who came to Pakistan at the time of establishment was:  
 (a) 4.5 million  
 (b) 5.5 million  
 (c) 6.5 million  
 (d) 7.5 million



- (35) He is considered as the founder of Socialism:  
 (a) David Ricardo (b) Karl Marx  
 (c) Adam Smith (d) Maithus
- (36) The people in the Sub-Continent were professionally inclined towards:  
 (a) Trade and business (b) Agriculture and cultivation  
 (c) Scientific research (d) Industries
- (37) The number of Scheduled Banks in Pakistan at the time of independence was:  
 (a) 536 (b) 549 (c) 631 (d) 696
- (38) It was entrusted to look after the economy as a central bank at the time of establishment of Pakistan:  
 (a) Reserve Bank of India (b) Bank of England  
 (c) International Bank (d) Bank of Australia
- (39) The Quaid-e-Azam Muhammad Ali Jinnah inaugurated the State Bank of Pakistan on:  
 (a) 7th October, 1947 (b) 12th November, 1947  
 (c) 1st July, 1948 (d) 2nd October, 1948
- (40) The State Bank of Pakistan issued currency for the first time in the year:  
 (a) July, 1948 (b) October, 1948 (c) December, 1949 (d) January, 1950
- (41) It was established as the Central Bank of Pakistan on 1st July, 1948:  
 (a) National Bank of Pakistan (b) Muslim Commercial Bank  
 (c) Habib Bank Limited (d) State Bank of Pakistan
- (42) The National Bank of Pakistan was came into being in:  
 (a) 1st July, 1948 A.D. (b) 8th November, 1949 A.D.  
 (c) 6th October, 1950 A.D. (d) 4th March, 1974 A.D.
- (43) For the determination of per capita income, National Income is divided by:  
 (a) Total population (b) Total expenditure  
 (c) Total human power (d) Total taxes
- (44) The main cause of the low standard of living in Pakistan is:  
 (a) Standard population (b) Over population  
 (c) Less population (d) None of these
- (45) Per capita income of Pakistan as compared to advanced and progressing countries of the world is:  
 (a) High (b) Moderate (c) Acceptable (d) Very low





# ECONOMICS AND ITS SUBJECT MATTER

## IMPORTANT SHORT QUESTIONS & ANSWERS

**Q.1** Define Wants and describe two kinds of Wants.

**Ans:** Wants

All the desires and requisites of life in the form of certain goods and services which become responsible for the economic struggle are called Wants. They always keep man busy to satisfy them. Food, Clothing and Shelter are considered as the basic human wants.

### Kinds of Wants

There are two kinds of wants which are following.

**(I)** Economic Wants

All those wants which are satisfied by adopting various economic activities because they require money for their satisfaction are called "Economic Wants". These wants are only satisfied by doing labour. These wants are related to obtain certain materialistic goods and services with the consumption of wealth or money. Economic wants are further classified as following.

(a) Necessities (b) Comforts (c) Luxuries

**(II)** Non-Economic Wants

All those wants which do not require money or wealth for their satisfaction are called as "Non-Economic Wants". They are achieved without any labour or economic activity. These wants are the free gifts of nature. Sunshine, air, water, love of parents, blessing of God, spiritual satisfaction etc. are included in Non-Economic Wants.

**Q.2** Define Economic Wants and describe the following classes of Economic Wants.

(i) Necessities (ii) Comforts (iii) Luxuries

**Ans:** Economic Wants

All those wants in the form of certain materialistic goods and services which are satisfied only by the consumption of wealth or money are called Economic Wants. These wants give an inspiration to man for doing labour and adopting economic activities.

### The Classes of Economic Wants

Economic Wants are classified into three classes which are following.

**(I)** Necessities

All those wants which are considered very essential for the existence and the formation of a civilized life in a society are called Necessities. The concept of human life is not possible without them. Food, clothing and shelter within a simple place are considered as main necessities for maintaining life.

**(II)** Comforts

All wants which are related to acquire such goods and services which make the life comfortable are called as Comforts. They are of less importance and life can be survived without them but they add comfort in life. They also increase the power and efficiency of doing work. The





use of milk, butter and egg in breakfast, comfortable bed for sleeping, vehicle for movement, telephone, refrigerator etc. are included in comforts.

### (iii) Luxuries

All wants which are neither necessary for making life possible nor they increase the efficiency of doing work are called as Luxuries. They only give satisfaction to egoistic spirit and add apparent dignity and social status in human life. Certain commodities are necessities for a man but they may be luxuries for the other. For example a car, telephone and a bungalow are the necessities for a minister and a high government official or a diplomat but all these are luxuries for a clerk. Television, Air conditioner, ornaments, jewellery, diamonds, gems, expensive conveyance, well-furnished residence etc are all included in luxuries.

**Q.3 Define Wants. Mention or state any five characteristics of Wants. (OR) Write down five characteristics of Human Wants. (OR) State five characteristics of Economic Wants.**

**Ans: Wants**

All the desires and requisites of human life in the form of certain goods and services which become responsible for the economic struggle are called Wants.

### The Characteristics of Wants

The characteristics of Wants are following.

#### (i) Uncountable and Unlimited

Human Wants are uncountable and unlimited. They never come to an end. Hardly one want is satisfied, more new wants are appeared once again.

#### (ii) Recurring in Nature

Wants are recurring in nature. They never come to an end after their satisfaction but they occur again and again. As the requirement of hunger, thirst and clothing are felt again and again.

#### (iii) Competitive in Nature

Wants are also competitive in nature. Some wants compete each other for their satisfaction. As the wants which are left most important are satisfied first leaving the less important wants to be satisfied later.

#### (iv) Alternative in Nature

Wants are alternative in nature because for the satisfaction of one want, different alternatives are available. For example hunger can be satisfied by eating bread, rice or fruits. Similarly Rickshaw, bus, motorcycle or a bull cart can be used for travelling.

#### (v) Complementary in Nature

It is the characteristics of human wants that they are complementary in nature because they are not fully satisfied without their complements. For example the desire of tea is satisfied fully by consuming milk, sugar, tea cup etc.

**Q.4 Define the following terms.**

(i) **Wants**

(ii) **Goods and Services**

(iii) **Utility**

(iv) **Value**

**Ans: (i) Wants**

All the desires and requisites of human life in the form of certain goods and services which become responsible for the economic struggle are called Wants. Economic Wants and Non-Economic Wants are the two kinds of wants.

### (ii) Goods and Services

All materialistic things or commodities which satisfy human wants are called as Goods in Economics. All these things or commodities have utility in them and they have a satisfying power of any human want. Chair, table, pen, scooter, rice, wheat etc. are all considered as goods.



The efforts or endeavours which are done in order to satisfy the wants of people by using personal knowledge, skills and training are called as Services in Economics. For example a teacher provides his service to his students, a doctor cures his patients while a musician, singer or an actor provides entertainment to people. The endeavour of such persons are taken as their services.

### (iii) Utility

The hidden power of a product or service by which any human want can be satisfied is called as Utility. It is not necessary for the utility of a product or service that it may be useful because sometimes it may be dangerous to human health or society. It is considered as utility because it satisfied human want. Everything possesses a utility but obtaining utility depends upon the user of that thing. For example wine, cigarettes, paan, gutka etc. are dangerous for health but they have utility for their users but those who do not use them find no utility in them. Utility is a subjective concept. It relates to miner sentiments and emotions of a person and it does not relate to ethics.

### (iv) Value

The existing power in a product by which it can be exchanged with another product, goods or services is called as Value. The value of a product cannot be determined until it is compared to other goods or services.

### Kinds of Value

There are two kinds of value which are following.

#### (a) Value in Use

The value of a commodity which is related to obtain actual satisfaction from it is called as Value in Use. All economic goods and services possess the value in use. For example air, light, soil and wood etc. all have great importance in human life with respect to their use.

#### (b) Value in Exchange

The value of a commodity which is related to its exchangeability power with other is called as the Value in Exchange. It is actually the power of exchange of a commodity. For example if 40kg of rice are exchanged with 20kg of sugar, then the value of 40kg of rice will be equal to 20kg of sugar.

**Q.4 Define the following terms in three sentences each.**

(i) Scarcity

(ii) Price

(iii) Wealth

(iv) Per capita Income

### **Ans: (i) Scarcity**

The shortage of a commodity or a service is generally considered as Scarcity but in economics it is relative concept and is determined by the comparison of the demand of a commodity or a service. If the demand is greater than the quantity of supply of a commodity or a service then it is taken as to be scarce. As we know that the scarcity of clay, stones and air is not felt because their supply is far more than their demand. As compared to that the scarcity of food grains, clothing, scooters, motor cars and books etc. is always observed because of less supply than their demand. The relative scarcity creates economic problems. Thus the relative shortage of certain goods and services is called as Scarcity.

### (ii) Price

The value of any product or a service if expressed in terms of money then it is called Price. Price is a good source of measuring the value of a product or service. The price determines the value-in-exchange with respect to money. For example if 10 kg of cooking oil is bought by exchanging Rs. 1500 then the price of 10 kg of cooking oil will be Rs. 1500. Similarly if 10 metres of cloth is bought by exchanging Rs. 2000 then the price of 10 metres of cloth will be Rs. 2000.

### (iii) Wealth

Money, gold or silver are generally considered as wealth but in economics all those goods and services which contain the qualities of utility, scarcity and transferability are considered as



wealth. It means all those goods and service which possess value are taken as wealth. If wealth is invested for further production of wealth then it is called Capital. Here it should be remembered that capital is wealth but wealth cannot be considered as capital unless it is invested for the further production of wealth. All economic goods as a house, motor car, gold, silver and money in the form of cash all considered as wealth.

#### (iv) Per capita Income

The average share of each citizen of a state in the national income annually is called as Per Capita Income. It is determined by dividing total national income of country with the total population per capita income determines the standard of living and prosperity of citizens in a country. Per capita income of Pakistan is low because of many factors like high population growth, deficiency of capital, low efficiency of labour, lack of political stability and unequal distribution of wealth.

**Q.5** Define Value. Describe the factors which are responsible to create Value. Define Value and state those qualities which are necessary for the presence of value.

**Ans:** Value

The existing power in a product by which it can be exchanged with another product, goods or services is called as Value.

#### The Qualities or Factors that Create Value

Value is a relative concept therefore it is determined by some factors or we can say some qualities are necessary to be existed in a product or service which create the value. These factors or qualities can be described as following.

##### (i) Utility

Utility is the power of satisfying human want and it is an essential factor or quality that creates the value. For example a pen satisfied the writing want while a book satisfies the reading want.

##### (ii) Scarcity

The shortage of a commodity or service as compared to its need or demand is called as Scarcity. It is also an essential factor or quality that creates value because a certain price has to be paid due to the scarcity of a commodity or service.

##### (iii) Transferability

The third factor or quality of the value is transferability. Anything which possesses a value can be transferable physically from one place to another but if it is not possible than its ownership can be changed. For example a motor car, fridge and television are transferable physically but a house or a piece of land cannot be shifted physically therefore they are movable nominally by the transfer of ownership.

**Q.6** Define Utility. What is meant by utility and write down the important characteristics of utility.

**Ans:** Utility

The power, feature or quality of a commodity, service or person by which human wants are satisfied directly or indirectly is called as Utility.

#### The Characteristics of Utility

Important characteristics of utility are following.

- (i) Utility depends upon the nature of human desire. Gold, silver and diamonds have more utility because people have a great desire of acquiring them.
- (ii) It depends upon the nature of ownership. For example there is no utility of a pen for an illiterate person but for a student it has a utility.
- (iii) It depends upon the nature of the use of commodities or services. For example if wood is consumed for making high quality furniture, it has more utility than if it is used as fuel.



- (iv) The change of utility depends upon the shape or form. For example the utility of garbage is increased if it is used as fertilizer.
- (v) Time and place both create the utility. For example herbs and shrubs are considered useless in a forest but their utility is increased in medicine making places.

**Q.7 Write the points of difference between Utility and Satisfaction.**

**Ans: Difference between Utility and Satisfaction**

UTILITY	SATISFACTION
(1) The economic term which describes the quality or power of a product or service of satisfying a human want is called Utility.	(1) A general term which describes the feeling of happiness or pleasure after the use of a commodity or service is called Satisfaction.
(2) Utility has its own existence because it is a power or quality of a commodity or a service.	(2) Satisfaction depends upon utility because it is attained after the utility of a product or service.
<b>Example:</b> Water has the utility to quench the thirst of a person.	<b>Example:</b> Satisfaction of thirst is obtained when water is drunk.

**Q.8 Write the points of difference between Utility and Usefulness.**

**Ans: Difference b/w Utility and Usefulness**

UTILITY	USEFULNESS
(1) The power or quality of a product or service of satisfying human want is called Utility.	(1) A general word which describes the positive effect of a thing is called Usefulness.
(2) Utility may be positive or negative.	(2) Usefulness is always considered as positive.
(3) Utility does not relate to ethical or moral significance.	(3) Usefulness relates to ethical or moral significance.

**Q.9 Write the points of difference between Economic Wants and Non-Economic Wants.**

**Ans: Difference b/w Economic Wants and Non-Economic Wants**

ECONOMIC WANTS	NON-ECONOMIC WANTS
(1) All human wants which require materialistic goods and services to satisfy them are called Economic Wants.	(1) All human wants which do not require materialistic goods and services in order to satisfy them are called Non-Economic Wants.
(2) These wants can only be satisfied only after the consumption of money.	(2) These wants do not require the consumption of money for their satisfaction.
(3) Economic activities are necessary in order to satisfy these wants.	(3) Economic activities do not require to satisfy these wants.
<b>Examples:</b> Wants of getting food, clothing and a house are all economic wants.	<b>Examples:</b> Desires for air, sunshine and water are included in non-economic wants.



**Q.10** Write the points of difference between Wealth and Capital.

**Ans:** Difference b/w Wealth and Capital

WEALTH	CAPITAL
(1) All those things which contain the qualities of utility, scarcity and transferability are called as Wealth.	(1) The part of wealth which is used to yield further wealth is called Capital.
(2) Every kind of capital is considered as Wealth.	(2) Wealth is not considered as Capital unless it is not used for the production of more wealth.
<b>Example:</b> A person gets Rs. 5 lacs from his father. He keeps 2 lacs with him, this cash money is his wealth.	<b>Example:</b> A person gets Rs. 5 lacs from his father, he invests Rs. 3 lacs for buying shares, this investment is his capital.

**Q.11** Define Wealth and state the kinds of Wealth.

**Ans:** Wealth

All those goods and services which contain the qualities of utility, scarcity and transferability are considered as Wealth.

**Kinds of Wealth**

There are following kinds of wealth.

(i) Personal Wealth

The wealth which is belonged to a person or an institution in the form of material goods or services is called as Personal Wealth.

(ii) Social or Common Wealth

The goods and properties which are collectively owned by all members of a society are considered as social or common wealth. Public parks, public buildings and public libraries etc. are considered as social or common wealth.

(iii) National Wealth

All the assets and resources available in a country which are in the collective ownership of the nation are called as National Wealth. All natural resources like mountains, forests, rivers, streams, metals, minerals, oil, gas etc are included in National Wealth.

(iv) International Wealth

The sum of total national wealth of all the countries of the world is called as International Wealth. It included such things which are commonly shared by all countries like oceans, space, scientific knowledge etc.

**Q.12** Define Economic problem and state the examples of the nature of Economic Problem.

**Ans:** Economic Problem

The problem which is related to the production, consumption, distribution and finance in order to organize a system for satisfying human wants is called as Economic Problems.

**The Nature of Economic Problems**

There are many economic problems existed which have to faced by mankind but the nature of basic problems can be described with following three examples.

- (i) Human desires or wants are unlimited.
- (ii) The resources for satisfying the human wants are limited.
- (iii) How can the available resource be managed to satisfy more human wants.



**Q.13 Define Economics in the words of Professor Marshall.**

**Ans: Marshall's Definition of Economics**

Professor Alfred Marshall has defined the Economics in following words.

"Economics is the study of mankind in the ordinary business of life. It examines that part of the individual and collective efforts of man which are closely connected with the attainment and use of material requisites for acquiring a prosperous life. So, Economics on one side is the study of wealth and on the other side is part of the study of human life."

(Professor Alfred Marshall)

**Q.14 Define Economics in the words of Professor Robbins.**

**Ans: Robbin's Definition of Economics**

Professor Lionel Robbins has defined the Economics in following words:

"Economic is the study of such human behaviour which is adopted as a relationship between ends and scarce means while the means can be used alternatively".

(Professor Lionel Robbins)

**Q.15 Give a comparison of the definitions of Economics as given by Professor Marshall and Professor Robbins. Which definition is the most comprehensive?**

**Ans: The Comparison of Marshall and Robbins Definitions**

Marshall's Definition	Robbin's Definition
(1) According to Marshall, human activities are studied in Economics for increasing the materialistic welfare.	(1) According to Robbins, human activities are studied in Economics because of satisfying unlimited human wants by limited sources.
(2) Marshall's definition has a limited scope because of its concept of materialistic welfare.	(2) Robbin's definition has a large scope because of the consideration of all activities.
(3) The concept of materialistic welfare in Marshall's definition is not universal.	(3) The concept of scarce means and unlimited wants in Robbin's definition is universal.
(4) Marshall's definition divides the human activities in two categories material and non-material.	(4) Robbin's definition considers all activities associated to economic aspects of human life.
(5) Marshall's definition is only applicable to the economy of capitalism.	(5) Robbin's definition is applicable to all kinds of systems of economy.





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** Define Economics. State the subject matter and the scope of the study of Economics.

**Ans:** **Economics**

A progressive social science which deals with the study of all those methods, analytical ways and human activities for satisfying human desires, needs and wants is called Economics. There are three most popular definitions of economics.

- (i) Economics is a science of wealth. (Adam Smith)
- (ii) Economics is a science of material welfare. (Professor Alfred Marshall)
- (iii) Economics is a science of scarcity and choice. (Professor Lionel Robbins)

### **The Subject Matter of Economics**

The subject matter is the real essence of the study because through subject matter the significance of the study is determined. Economics is a social and normative science. The subject matter of Economics can be understood by analysing various definitions of Economics as given by Economic experts. According to Marshall the economics is the subject matter of study of those economic problems which are related to the material welfare. So, through individual and collective efforts material requisites are to be provided more and more in order to attain human welfare, economic progress and prosperity.

Another economic expert Professor Robbins stresses that the subject matter of Economics is actually related to the purpose of satisfying unlimited human wants by limited sources. According to Robbins when means are limited for satisfying unlimited wants then the man should follow a certain line of action in order to solve his economic problem. In this situation, the wants may be classified on the basis of preference. Thus by preferring and satisfying the most important want first, everyone can be able to solve many of his economic problems. According to Robbins, the solution of any economic problem by following a certain line of action is actually the subject matter of Economics. In short it can be said that the provision of essential requisites for human progress and prosperity and the satisfaction of unlimited wants through following a certain line of action is the essence or the subject matter of Economics.

### **The Scope of Economics**

Scope means the field of study, Economics has a wide-range of study because it is considered simultaneously as a science and as an art. It is considered as a science because its knowledge is systematic and based upon observation and experimentation. It describes various methods, theories and laws which help in drawing economic policies for progress and prosperity. Economic is also an art because of its division in various branches which provide practical guidance for the solution of economic problems. It is an art because its laws and principles are applied on a society for obtaining results. Economic is the knowledge about facts and it is also the knowledge of proper economic guidance. It is a normative and social science which deals with problems for achieving positive and better results. The scope of economics can be explained through the topic which are brought under the study of economics such as determination of price, production, cost concepts, income concepts, national income, money and banking etc. Thus the study of economics helps in social and economic development in society which further creates an atmosphere of establishing international trade.

**Q.2** Define Economics and explain the advantages of Economics in the daily life. Define Economics and state the significance of the study of Economics in practical life.

**Ans:** **Economics**

A branch of social sciences which deals with the study of human activities, resources, methods and analytical ways for satisfying human desires, needs and wants is called Economics.



- (i) According to Professor Marshall, Economics is the study of all activities which are adopted for achieving more and more material welfare.
- (ii) According to Professor Robbins, Economics is the study of human behaviour as a relationship between unlimited wants and scarce means which have alternative uses, thus it is a study of scarcity and choice.

### **Advantages, Importance and Significance of Economics in Life**

The study of economics has great importance and its significance is increasing day by day. A country which has strongest in its economy also acquires the strongest position in this world. The advantages, importance and significance of Economics in daily of practical life can be described as following.

- (i) Economics produces a balance in resources and their demand in a society. This balance can help in the development of a society. The study of Economics gives a critical view of all resources and their consumption in a country.
- (ii) Partially sale and purchase of available sources is considered as trade, the study of Economics explains all those laws and principles which are helpful in establishing a successful trade.
- (iii) Man is lustful for earning more and more wealth because it helps him in satisfying his wants. The study of Economics describes the ways of earning wealth but it also develops the skills of the use of wealth correctly.
- (iv) The study of Economics presents a view of all individual and collective human efforts which can be utilized successfully to achieve material requisites for a prosperous life.
- (v) The study of Economics is helpful in removing the main causes of backwardness because of the application of its analytical methods, development theories and practical laws.
- (vi) The study of Economics creates assurance of the progress and prosperity of a nation because a nation becomes able to keep of a view of national income and resources, thus economic planning can be done successfully.
- (vii) The study of Economics is helpful for entrepreneurs in framing most suitable policies for their business. It is helpful for the government in the development of economic planning.
- (viii) The study of Economics is helpful for the consumers in daily life. It guides the consumers how to distribute their limited income in purchasing maximum goods to obtain maximum satisfying.

On viewing the above points, it is cleared that the scope of the study of Economics is very extensive. Its study describes all the principles of making plans for prosperity. A nation can only get stability after obtaining the correct knowledge of the study of Economics. It is also necessary for establishing freedom and for making national identity.

**Q.3** *How does an economic problem arise and how it is solved? Define economic problem. According to Robbins the solution of an economic problem is only a certain line of action. Do you agree to it? If so, then prove it.*

**Ans: Economic Problem**

The problem which is related to the production, consumption, finance and satisfaction of human wants by the available scarce means is called Economic Problem.

### **The Appearance of an Economic Problem**

Human wants are unlimited, an infinite series of human wants remains continue with human life. Nobody can claim that all of his wants have been satisfied and he has no need to satisfy any further want. Everybody feels hunger at a time then another he needs water. Sometime one feels the desire of clothing then starts to feel the desire of having good conveyance. When all existing wants are satisfied then new wants starts to create in mind, so the series of wants remains continue till the last moment of life. So an economic problem arises because of existence of unlimited human wants.



## The Solution of Economic Problem

For the solution of an economic problem, it is necessary to adopt a certain line of action, this certain line of action is adopted because of the existing limited resources. The phrase "scarce means" does not mean that there is vast shortage of goods and services in the world. It is not so, many million tons of grain is produced every year in the world. Billion metres of cloth is manufactured, millions of motor cars are manufactured in factories and million barrel of petrol is extracted from its source. It seems very strange that such a mass production is short for human wants, but infact it is true, such a mass production remains insufficient to meet all the requirements of mankind. The production of goods is different in different countries of the world so it is commonly observed that if a country faces the problem of the shortage of food then the other faces the problem of the production of cloth and other necessities of life. It is proved from observing all these facts that the existing resources are for less than the collective human demand or needs. This shortage of scarcity of the resources creates an economic problem. Economic problems are also concerned with the production methods by means of existing limited resources:

- For the satisfaction of human economic wants, following resources are available.
- (i) Natural resources like land, climate, minerals, forests etc.
  - (ii) Artificial resources like machines, tools, roads and bridges etc.
  - (iii) Human resources like engineers, doctors, craftsmen and other skilled labour etc.

All the resources which have mentioned above are not less in number or quantity but they are certainly less as compared to their need and demand. Hence the determination of these resources for the production is done very carefully in order to attain the maximum satisfaction from the use of these scarce resources. For example if the problem of food and problem of housing both are existed then the land should be used in such a way that both the problem get solved. It should determined according to the nature of economic problem and the available resources so that the maximum satisfaction can be derived from the available resources.

The nature of economic problems goes on changing because of the conditions, so it is the duty of an economist to use his skills in solving these problems in accordance with the economic conditions and resources. It is necessary to determine the available resources properly after the consideration of existing economic problems in a country or state. According to Professor Alfred Marshall, Economics is related to the economic problems which produce everyday in human life and the prosperity in human life is attained by the production of material requisites. Professor Robbins suggested that the economic problems can be solved by adopting a certain line of action in order to choice of satisfaction step-wise through scarce available resources. According to Robbins human wants are unlimited and the resources of satisfying these wants are limited, so a certain line of action in order to handle this situation. Thus the economic problem may be solved by the preference and choice of wants. For example a sick child wants toys but his parents have very limited income so either they can buy medicines or medicines must be preferable than the need of toys because the health of the sick child is more important than the provision of toys for his playing, so the limited amount of money will be spent on medicines. It means the economic problems must be solved in accordance with their state preference or choice. So this is certain line of action which has been suggested by Professor Robbins.

## Conclusion

We agree that Professor Robbins has suggest the best solution of economic problems. As we know that four factors are responsible for arising an economic problem which are following.

- |   |                            |
|---|----------------------------|
| (i) Human wants are unlimited               | (ii) Resources are limited |
| (iii) Human wants are not equally important |                            |
| (iv) Resources have alternative uses.       |                            |

As human wants are unlimited therefore, all the wants cannot be satisfied. By keeping this fact in front that all human wants are not equally important, so these wants should be satisfied in their state of preference or choice. First of all man should prefer to satisfy his necessities and then should think about comforts. In the last he should try to satisfy his wants about luxuries, if his means allow him to do so. As the limited resources can be put to various uses, so man should choose the best way or utilizing the scarce means in order to get maximum satisfaction from them.





**IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

**Q.1** Choose the correct answer for each of the following from the given options.

- (1) He is called the father of Economics:  
(a) Alfred Marshall (b) Robbins (c) Ricardo (d) Crowther
- (2) The part of wealth which is used for further production of wealth is:  
(a) Capital (b) Utility (c) Scarcity (d) Transferability
- (3) The thing which has the capacity to satisfy any human want is called:  
(a) Price, (b) Transferability (c) Scarcity (d) Utility
- (4) The ability of satisfying a want is called:  
(a) Commodity (b) Value (c) Utility (d) None of these
- (5) In Economics, resources are:  
(a) Scarce (b) Unlimited (c) Free (d) Available
- (6) He is considered as the founder of Economics:  
(a) J.S. Mill (b) Adam Smith (c) Alfred Marshall (d) Robbins
- (7) The first book of Economics was written by:  
(a) Lionel Robbins (b) Robert Malthus (c) Adam Smith (d) J.S. Mill
- (8) The Book "Wealth of Nation" is written by:  
(a) J.S. Mill (b) Adam Smith (c) Robert Malthus (d) Professor Robbins
- (9) All ancient civilizations of the world are related to:  
(a) Sea (b) River (c) Mountain (d) Trees
- (10) The famous book "Capital" has been written by:  
(a) Professor Marshall (b) Karl Marx (c) Adam Smith (d) Professor Robbins
- (11) Human Wants are:  
(a) Limited (b) Less (c) Unlimited (d) Attractive
- (12) The "State Bank of Pakistan" was inaugurated by:  
(a) Liaquat Ali Khan (b) Miss. Fatima Jinnah (c) Quaid-e-Azam (d) Khawaja Nazimuddin
- (13) The kinds of human wants are:  
(a) Two (b) Three (c) Four (d) Five
- (14) On the basis of importance, human wants are classified into:  
(a) Two classes (b) Three classes (c) Four classes (d) Five classes
- (15) Economics has been classified as:  
(a) Natural Science (b) Social Science (c) Cultural Science (d) Religious Science
- (16) The name of the famous book of Professor Adam Smith on Economics is:  
(a) Principles of Economics (b) Theories of Economics (c) Wealth of Nation (d) Analysis of Resources
- (17) The shortage or less availability of a thing in economics is called:  
(a) Price (b) Utility (c) Scarcity (d) Value
- (18) The famous book "Nature and Significance of Economics" has been written by:  
(a) Professor Adam Smith (b) Professor Alfred Marshall (c) Professor Robbins (d) J.S. Mill
- (19) For satisfying these wants, the consumption of goods and services is necessary:  
(a) Cultural Wants (b) Economic Wants (c) Non-Economic Wants (d) Spiritual Wants
- (20) There is no need of the consumption of material goods, services and money:  
(a) Luxurious Wants (b) Necessities (c) Non-Economic Wants (d) Wants for comforts





- (21) Sunshine, air, water, love of parents and spiritual peace all are included in:  
 (a) Comforts (b) Necessities (c) Luxuries (d) Non-Economic Wants
- (22) Food, clothing and shelter are included in:  
 (a) Necessities (b) Luxuries (c) Comforts (d) Pomp and Show
- (23) These provide ease in life and also increase the efficiency of work:  
 (a) Services (b) Comforts (c) Necessities (d) Luxuries
- (24) These wants are neither essential for the completion of life nor they increase the efficiency of work:  
 (a) Necessities (b) Luxuries (c) Comforts (d) Non-economic wants
- (25) A comprehensive definition of Economics has been given by:  
 (a) Professor Adam Smith (b) Professor Marshall  
 (c) J.S. Mill (d) Professor Robbins
- (26) According to Adam Smith, Economics is science of:  
 (a) Material Welfare (b) Scarcity and Choice  
 (c) Wealth (d) Ethics
- (27) Adam Smith wrote first regular book on Economics in the year A.D.:  
 (a) 1576 (b) 1676 (c) 1776 (d) 1876
- (28) Air and water are:  
 (a) Non-material goods (b) Non-economic goods  
 (c) Economic goods (d) Material goods
- (29) According to Professor Robbins, Economics is a science of:  
 (a) Wealth (b) Material Welfare  
 (c) Scarcity and Choice (d) Economic Analysis
- (30) The basic economic problem of Pakistan is:  
 (a) Low productivity (b) Inflation  
 (c) Scarcity (d) Unemployment
- (31) Which of the following is not an economic good?  
 (a) Television (b) Watch (c) Table (d) Rainfall
- (32) According to Professor Marshall, Economics is a science of:  
 (a) Material Welfare (b) Wealth  
 (c) Scarcity (d) Production
- (33) He called Economics as the "Gospel of Mammon":  
 (a) Alfred Marshall (b) Robbins (c) Carlyle (d) J.M. Keynz
- (34) The existing power of a thing through which it is exchanged with other goods and services is called:  
 (a) Utility (b) Value (c) Scarcity (d) Price
- (35) When the value of certain good or service is expressed in terms of money it is called:  
 (a) Utility (b) Price (c) Transferability (d) Wealth
- (36) Utility, Scarcity and Transferability are the factors which create:  
 (a) Capital (b) Wealth (c) Price (d) Value
- (37) He is considered as the father of modern Economics:  
 (a) Alfred Marshall (b) Professor Adam Smith  
 (c) Professor Robbins (d) Ruskin
- (38) Human wants are unlimited, resources are limited, wants are not equally important and means have alternative uses. These four factors when act together then it arises:  
 (a) Economic activity (b) Economic struggle  
 (c) Economic problem (d) Economic well-being
- (39) Land, climate, mineral and forests are considered as:  
 (a) Economic goods (b) Natural resources  
 (c) Artificial resources (d) Power resources
- (40) For the solution of an economic problem the proposal of adopting a certain line of action has been given by:  
 (a) Professor Adam Smith (b) Professor Marshall  
 (c) Professor Robbins (d) David Ricardo



**CHAPTER 4****THE BASIC CONCEPTS  
OF ECONOMICS****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** Define National Income. Write five sentences on National Income.  
(OR) What is meant by National Income? Explain.

**Ans:** National Income

The definition of National Income can be explained in five sentences as following.

- (i) The income which is obtained by the factors of production land, labour, services during one year is called as National Income.
- (ii) It is the income which is obtained from all the factors of production in the form of rent, wages, interests and profit from goods and services.
- (iii) If the worth of goods and services is determined on the basis of market then it is called as National product. If the expenditure on the maintenance of machines or depreciation is subtracted from the National Product then the remaining income is National Income.
- (iv) The aggregate factor income, which arises from the current production of goods and services by the nation's economy is considered as National Income.
- (v) National income shows the economic condition of a country because National Income reflects on overall performance of the economy. It also helps in the calculation of per capita income.

**Q.2** What do you understand by Basic Concepts. Write some basic concepts which are used in Economics.

**Ans:** Basic Concepts

Some fundamental terms are frequently used in Economics. All these terms have their specific meaning in order to understand the subject matter of Economics, so the set of all these fundamental terms in Economics is considered as the basic concepts. Some basic concepts of Economics are following.

- |                        |                 |
|------------------------|-----------------|
| (i) Goods and services | (ii) Income     |
| (iii) National Income  | (iv) Savings    |
| (v) Consumption        | (vi) Investment |

**Q.3** Define Income and describe the two major divisions of Income.

**Ans:** Income

A reward or remuneration which is received by a person usually in the form of money for his personal service or labour or the services rendered by his property is called as Income. Income is generally received after a certain period. For example a labourer works physically and receives his payment in the evening for his labour. A clerk works in an office and receives his salary at the end of the month. A craftsman shoemaker makes shoes and receives his whole amount at the end of every week. Thus the determination of income is made with respect to a specific period or time as daily, weekly, monthly or annually. For example a person works as a clerk in an office and his monthly salary is Rs. 15000/- then his income will be Rs. 15000/- per month.



## Major Division of Income

Income is generally classified into two major groups which are following.

### (i) Personal Income

The income which is received a person through his labour, skills, service or business is called as Personal Income. For example a person deals with a business on small scale and through his business he receives Rs. 80,000 per month. So this income is called his personal income because he earns it from his own business.

### (ii) National Income

The sum of total money value of all goods and services produced in a country by the use of all factors of production land, labour, capital and organization during a specific period generally during a year. It is also expressed in terms of the aggregate expenditure or the aggregate factor income. National Income is calculated on the basis of Gross National Product (GNP), which refers either to market price or to factor cost. In case of market price, National income is calculated with the reference to the market price of goods and services product during a year. On the contrary, national income at factor cost is calculated by adding up incomes received by the factors of production.

**Q.4** Define following terms:

- (i) Savings                      (ii) Consumption                      (iii) Investment

**Ans: (i) Savings**

The part of income which remains unused from the expenditure on daily life is called as Saving. Saving is taken as the difference between the income and expenditure.

**(ii) Consumption**

The process of using anything like money, capital, goods, services etc. for satisfying human wants is called Consumption. If consumption is related to money, wealth or capital then it is called as Consumption of Wealth.

**(iii) Investment**

The part of disposable income which is employed in any business in order to produce further wealth is called Investment. If the investment causes to generate new capital assets then it is considered as real investment but if the addition of new capital assets does not take place and the expenditure are acquiring on acquiring old capital assets then it is considered as financial investment.

**Q.5** What is meant by Consumption in Economics? Explain.

**Ans: Consumption**

The direct use of anything in order to satisfy human want is called Consumption. If money or capital is used for satisfying human wants by the exchange of goods and services then this consumption is called Consumption of Wealth.

In order to understand the term consumption, we consider the examples from our daily life. We eat food whenever we feel hunger, drink water on feeling thirst, we use tea or drinks on feeling the desire for them. All these human wants are satisfied by consumption of certain things. In other words, it can be said that consumption means that part of goods and services which directly used for the satisfaction of human wants. There is a close relation existed between the income and the consumption. If a person earns more income, he will certainly spend more on consuming goods. The consumption will also become less in case of less income. We satisfy our wants by the direct consumption of goods and services until their utility becomes ended. The utility of certain goods ends immediately like bread, water, tea and newspaper etc. while many goods possess long lasting utility like dress, house, motorcycle, car, pen, book etc.



**Q.6** Define Saving and state the factors which are necessary for saving. Define Saving and differentiate between "Power to Save" and "Will to Save".

**Ans:** Saving

The part of income which remains unused from the expenditure on daily life is called as Saving. Saving is taken as the difference between the income and expenditure.

**Factors that Determine Saving**

The factors which are necessary for saving are following.

- (i) Power to Save (ii) Will to Save

**(i) Power to Save**

The power which inclines a person towards savings is called as Power to Save. It depends upon the income and expenditure both. If income is more but the expenses are less then the power to save is created. Thus the power to save increases with the increase in income.

**Example**

If the annual income of a salaried person Rs. 2,50,000/- but his annual expenditures are Rs. 2,00,000 then his income can be determined by the following equation.

$$\begin{aligned} \text{Saving} &= \text{Income} - \text{Expenses} \\ &= 2,50,000 - 2,00,000 \\ \Rightarrow \text{Saving} &= \text{Rs. } 50,000 \end{aligned}$$

**(ii) Will to Save**

The presence of desire for saving is called as will to save. It is the another factor which promotes the habit of saving. If a person keeps the sense about his children's future protection and protection from unseen disaster, he will certainly try to save something. But if a person does not like to save anything then saving would not be possible for him inspite of his handsome amount of salary.

**Q.7** Define investment and state some important kinds of investment.

**Ans:** Investment

The part of the disposable income which is invested in any business concern aiming at getting further production of wealth is called as Investment.

**Kinds of Investment**

Important kinds of investment are following.

**(i) Financial Investment**

The investment which does not create a new capital assets is called Financial Investment. It helps in transferring assets from one person to another.

**(ii) Real Investment**

The investment which creates new capital assets is called Real Investment. When a person sets a factory or workshop, it is his real investment.

**(iii) Private Investment**

The investment which is provided by private entrepreneurs on purchasing capital assets like machinery or in the construction of an office or godown etc. is called as Private Investment.

**(iv) Public Investment**

The investment which is provided by the government for purchasing of capital assets like machinery, buildings without any profit motive is called as Public Investment.



**Q.8 Differentiate between Gross National Product (GNP) and Net National Product (NNP).**

**Ans: Difference b/w Gross National Product and Net National Product**

Gross National Product (GNP)	Net National Product (NNP)
(1) The total market value on the basis of price or total production of all final goods and services during one year is called as Gross National Product (GNP).	(1) The total market value of all final goods and services which is obtained after the deduction of the value of depreciation of all capital goods like machinery and tools is called Net National Product (NNP).
(2) It is the review of the economy of a country. It gives the information about the efficiency of an economy.	(2) It gives the information of the total production of a country.
(3) It is measured in the form of money.	(3) It is measured by deducting the expenses of depreciation from Gross National Product.
(4) It gives the calculation the production value in the form of foreign exchange received by foreign trade and the services of people in foreign countries.	(4) It gives the correct measurement of the production value of all final goods and services.
(5) The calculation of final goods is done for avoiding double counting.	(5) It gives the real measurement of the national income of a country.

**Q.9 Differentiate between Gross National Product (GNP) and Gross Domestic Product (GDP).**

**Ans: Difference b/w Gross National Product and Gross Domestic Product**

Gross National Product (GNP)	Gross Domestic Product (GDP)
(1) The total market value of final goods and services produced in a country during one year is called Gross National Product (GNP).	(1) The total market value of final goods and services which are produced within a country during one year is called Gross Domestic Product.
(2) The remittances are included in Gross National Product.	(2) The remittances are excluded from Gross Domestic Product (GDP).
(3) It gives the measurement of total value of production of good and services during a year.	(3) It shows the economic efficiency of a country or nation.
(4) It is computed as the sum of the total market value of final goods and services and all productive expenditures.	(4) It is computed after the deduction of the cost of production from the total market value of goods and services.
(5) Agricultural production, industrial production and the services are included in Gross National Product.	(5) It is the first measurement of national income which equals to the sum of the values of all factors of production.

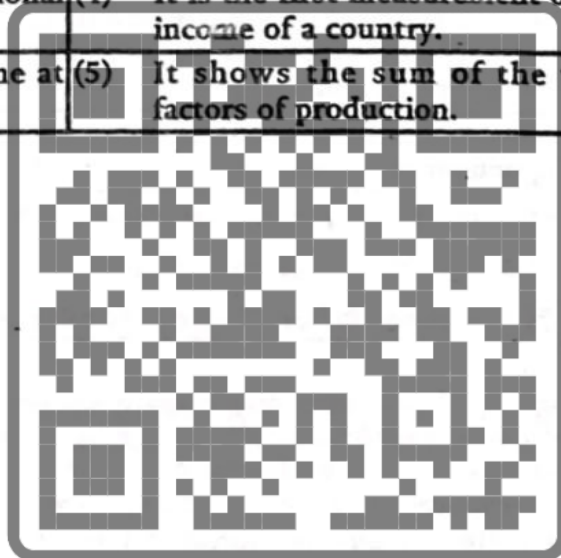


**Q.10** Differentiate between Net National Product (NNP) and Gross Domestic Product (GDP).

**Ans:** Difference b/w Net National Product and Gross Domestic Product

Net National Product (NNP)	Gross Domestic Product (GDP)
(1) The total market value of all final goods and services which is obtained after the deduction of the value of depreciation of all capital goods like machinery, tools is called Net National Product (NNP).	(1) The total market value of final goods and services which are produced within a country during one year is called Gross Domestic Product (GDP).
(2) It is computed of the deduction depreciation allowances and replacement charges of capital goods from Gross National Product.	(2) It is computed after the deduction of the cost of production from the total market value of goods and services.
(3) It gives the correct computation of the market value of production.	(3) It shows the economic efficiency of a country.
(4) It is the real measurement of the national income of a country.	(4) It is the first measurement of the national income of a country.
(5) It is also considered as national income at market prices.	(5) It shows the sum of the values of all factors of production.

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## **IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS**

**Q.1** Define National Income and state the various concepts of National Income.

**Ans:** **National Income**

The total income which is received by all the factors of production land, labour, capital and organization as the remunerations for their production of all the final goods and services in a country during a specific period or a certain year is called National Income.

### **The Important Concept of National Income**

Some of the important concepts of National Income are following.

**(i) Gross National Product (GNP)**

The total market value of final goods and services which are produced in a country during a specific period or a certain year is called as Gross National Product. It is represented by "GNP". The remittances sent by the nationals working abroad are also included in Gross National Product. The depreciation allowances, replacement charges of capital goods and the wear and tear cost of the capital goods are also included in Gross National Product. Agricultural production, industrial production, mineral production and all kinds of services are included in Gross National Product.

**(ii) Net National Product (NNP)**

The total market value of final goods and services after the deduction of the expenses of depreciation or depreciation allowances of capital goods like machines and tools is called as Net National Product (NNP). It is represented by "NNP".

$$\text{Net National Product (NNP)} = \text{Gross National Product (GNP)} - \text{Depreciation Allowances}$$

**(iii) Gross Domestic Product (GDP)**

The total market value of all final goods and services which are produced within a country during a specific period or a certain year after the deduction of the remunerations of the factors of production is called as Gross Domestic Product. It is represented by GDP.

The goods and services which are produced within a country through the factors of production during one year need some basic materials. For example seeds, fertilizers and medicines are required for agricultural production. If all the expenses for purchasing the materials or the cost of production is deducted from the total market value then Gross Domestic Product is computed. For example the production of value from one acre land is Rs. 50,000 while the expenditures for the production is Rs. 15000. In this case, the Gross National Product will be Rs. 15000. Only that production included in Gross Domestic Product which is produced within a country. The foreign production or imported items are not included in it. The earning from overseas workers is also excluded from Gross Domestic Product. In other words the Domestic Product (GDP) may be defined as the total volume of goods and services by means of inland factors of production after the deduction of expenditures of production.

**Q.2** Define National Income. Write the names of the factors on which National Income depends. Also state the significance and importance of the measurement of National Income.

**Ans:** **National Income**

The total income which is received by all the factors of production land, labour, capital and organization as the remunerations for their production of all the final goods and services in a country during a specific period or a certain year is called National Income.

### **Factors that Determine National Income**

The factors which determine National Income are following.



(i)	Natural Resources	(ii)	Artificial Resources
(iii)	Human Resources	(iv)	Capital Goods
(v)	Technical know-how	(vi)	Desire for Development
(vii)	Power Resources	(viii)	Transport Facilities
(ix)	Division of Labour	(x)	Political Stability

### **Significance and Importance of National Income**

The significance or importance of the measurement of National Income can be described as following.

- (i) National Income shows the economic conditions of a country. Its measurement helps to increase per capita income by adopting various economic policies for the development.
- (ii) The facts and figures obtained from the measurement of National Income determine the rate of economic progress in a country.
- (iii) The measurement of National Income is proved to be very beneficial for making economic analysis of the existed economic problems.
- (iv) The measurement of National Income provides great help in framing out new economic policies. It is helpful in making budget, industrial, agricultural and labour policies.
- (v) The facts and figures obtained from the measurement of National Income have the basic importance in economic planning.
- (vi) National Income and its measurement gives information to the entrepreneurs for their choice for investment. Thus it helps in increasing the rate of investment.

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## IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)

- Q.1** Choose the correct answer for each of the following from the given options.
- (1) It is not included in Net National Product (NNP):  
 (a) Wages (b) Investment  
 (c) Depreciation Allowances (d) Agricultural Product
  - (2) Net National Product (NNP) is equal to:  
 (a) Gross National Product + Depreciation Allowances  
 (b) Gross National Product - Depreciation Allowances  
 (c) Personal Income - Taxes (d) Gross National Product - Subsidies
  - (3) National Income does not include:  
 (a) Profit and Rent (b) Wages and Salaries  
 (c) Wages and Salaries (d) Transfer Payments
  - (4) The income which indicates the living standard of the people of a country is called:  
 (a) Personal Income (b) Per Capita Income  
 (c) Disposable Personal Income (d) Net National Income
  - (5) Per Capita Income is equal to:  
 (a) National Income + Population  
 (b) National Income - Population  
 (c) National Income  $\times$  Population (d) National Income + Population
  - (6) Land, labour, capital and organization are collectively called:  
 (a) Cost of Production (b) Laws of Production  
 (c) Factors of Production (d) Nature of Production
  - (7) A set of terms with their specific meaning related to a subject are called:  
 (a) Additional Concepts (b) Imaginations  
 (c) Basic Concepts (d) Common Figures
  - (8) The remuneration or payment which is received in favour of labour or business is called:  
 (a) Investment (b) Utility (c) Consumption (d) Income
  - (9) The income which belongs to a person obtained through his own labour, skills or business is called:  
 (a) Personal Income (b) Collective Income  
 (c) National Income (d) Disposable Income
  - (10) The market value of total final goods and services is called as:  
 (a) Land Production (b) Market Consumption  
 (c) National Production (d) Instantaneous Production
  - (11) If the repairing cost and depreciation of machines is deducted from the total market value of all goods and services then the remaining amount of money is called:  
 (a) Personal Income (b) Company Income  
 (c) Profit (d) National Income
  - (12) The total market value of all final goods and services produced in a country during a certain year is called:  
 (a) Market Product (b) Factory Product  
 (c) Gross National Product (d) Net National Product
  - (13) The total volume of goods and services produced within a country by means of inland factor of production is called:  
 (a) Agricultural Product (b) Gross Domestic Product  
 (c) Net National Product (d) Industrial Product
  - (14) The payment to the labour against his services is called:  
 (a) Profit (b) Wages (c) Interest (d) Rent
  - (15) We use things to satisfy our wants; this action in Economics is called:  
 (a) Utility (b) Production (c) Consumption (d) Savings



- (16) The part of income which remains unused after meeting and expenditures is called:  
 (a) Capital (b) Savings (c) Wealth (d) Interest
- (17) The difference between Income and expenditure is called as:  
 (a) Wealth (b) Income (c) Utility (d) Investment
- (18) Consumption has a close relation with:  
 (a) Income (b) Utility (c) Value (d) Exchange
- (19) The determination of income is made on the basis of:  
 (a) Price (b) Efficiency (c) A Certain Period (d) Physical Power
- (20) The employment of money in such activities which give an opportunity of getting income is called:  
 (a) Trade (b) Business (c) Investment (d) Utility
- (21) The repairing and depreciation expenses of capital goods like machines and tools are called:  
 (a) Cost of Production (b) Variable Cost  
 (c) Productive Expenses (d) Depreciation Allowances
- (22) If a person purchases a taxi, bus or a truck and uses it for getting further production of wealth, then his action is called:  
 (a) Consumption (b) Satisfaction (c) Investment (d) Savings
- (23) Savings depends upon two factors which are power to save and:  
 (a) Power to earn (b) Power to work (c) Will to save (d) Will to spend
- (24) The earning from overseas workers is not included in:  
 (a) Gross National Product (b) Gross Domestic Product  
 (c) Personal Income (d) None of these
- (25) Gross Domestic Product consists of total sum of all final goods and services which are produced:  
 (a) Outside the country (b) Inside the country only  
 (c) Inside cities only (d) Both inside and outside the country





## CHAPTER 5

**DEMAND****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** Define the following terms:

(i) Demand

(ii) Demand Schedule

(iii) Demand Curve

**Ans:(i) Demand**

A desire or wish for which the power to purchase and will to purchase both exist in order to satisfy it is called as "Demand". That quantity of a commodity that a person is willing to buy at a given price is called as Individual Demand. The total quantity that all the buyers of commodity are willing to buy at a given price is called as Market Demand.

**(ii) Demand Schedule**

A list which shows various quantities of a commodity which an individual can buy at different prices in the market is called Demand Schedule. It explains the relationship between the demand for a commodity at its different prices.

**(iii) Demand Curve**

A graphical representation of a demand schedule is called as Demand Curve. It explains the trend of demand in relation to changes in prices of a commodity. It is drawn with the help of demand schedule.

**Q.2** Distinguish between Demand and Desire.

**Ans: Difference b/w Demand and Desire**

DEMAND	DESIRE
(i) Demand is a result of inner feelings of a man or external stimuli but will power is included to it.	(i) Desire is a result of inner feelings or external stimuli but will power is not included in it.
(ii) It is necessary to obtain some utility through demand.	(ii) It is not necessary to obtain utility through desire.
(iii) There is no element of copying the others in demand.	(iii) There is an element of copying the others is present in desire.
(iv) Power to purchase and will to purchase both are necessary to fulfill a demand.	(iv) Power to purchase and will to purchase both are not necessary for creating a desire.
(v) A certain period is required to determine a demand.	(v) No specific period is required to determine a desire.

**Q.3** Define Demand and state the conditions for demand.

**Ans: Demand**

A desire or wish for which the power to purchase and will to purchase both exist in order to satisfy it is called "Demand".

**The Conditions for Demand**

There are three essential conditions for demand which are following.



**(I) Power to Purchase**

The desire or wish for anything cannot be called demand in Economics unless power to purchase present with it. For example most of the people have a desire of keeping a car or scooter but they have no money for buying them, so their desire come not true but if they have purchasing power then their desire becomes a demand.

**(II) Will to Purchase**

Besides the power to purchase, will to purchase is also necessary for demand. Most of the people have no will to buy a certain thing inspite of having much money to buy because of various reasons. For example a person keeps a desire for buying a motorcycle. Though he also keeps money but he does not buy a motorcycle, then his desire cannot be changed into demand.

**(III) The Price of Commodity**

The completion of a desire is not possible unless the buyer is aware of the market price of that commodity. The market price helps the determine the quantity of purchasing of a commodity. For example if a person has a desire of buying mangoes but he does not aware of the market price of mangoes, so he cannot be able to show the quantity of purchasing. So it is necessary for buyer that he knows well about the market price of commodity.

**Q.4 State the Law of Demand.****Ans: The Law of Demand**

A law which explains a relation between the quantity demanded and price is called "The Law of Demand". It states:

*"Other things remaining the same, when the price of a particular commodity rises, its demand contracts and when the price falls, the demand expands."*

**Q.5 State the assumptions of the Law of Demand.****Ans: Assumptions of the Law of Demand**

The Assumptions of the Law of Demand are following.

- (i) There is a similarity of all the units which are to be sold.
- (ii) There is no change in the income of the consumers.
- (iii) There is no change in the likeness of the consumers for buying a certain commodity.
- (iv) The probability of rising the price of a certain commodity in future does not exist.
- (v) There is no change in the population of a certain area.





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** Define the Law of Demand and explain it with the help of a schedule and curve. Draw the schedule and the curve of the Law of Demand.

**Ans:** The Law of Demand

A law which expresses the relation between the quantity of a commodity demanded and its price is known as "The Law of Demand".

### Statement

"Other things remaining the same, when the price of a particular commodity rises, its demand contracts but when the price falls, the demand rises."

### Explanation

The phrase used in the words of the Law of Demand assumes that the quantity demanded of a certain commodity changes because the rise and fall its price but the condition is applicable that the other things remain the same. It means there is no change in the likeness, taste and fashion of the consumers. There is also no change in the income of the consumers. No change also appear in the population. For example if a person succeeds in getting rid off his habit of smoking then there would be no increase in the demand of cigarette inspite of decrease in the price of cigarettes. Similarly if the fashion of a thing becomes out-dated then there would be no increase in its quantity demanded every after the fall of its price. The Law of Demand can be explained with the help of schedule and curve.

### Schedule for the Law of Demand

A certain commodity is sold in kilogrammes while its price is measured in rupees, therefore a schedule can be made for showing the relation between the quantity demanded and the price as following.

Price (Per Kg)	Quantity of Demand (Kg)
Rs. 10	8 kg
Rs. 12	7 kg
Rs. 14	6 kg
Rs. 16	4 kg
Rs. 20	2 kg

According to this schedule, when the price of the commodity is Rs. 10 per kg then the quantity of demand is 8 kg. When the price increases and becomes Rs. 12 per kg then the quantity of demand decreases and becomes 7 kg. Thus the quantity demanded decreases with the increase in price. The quantity demanded is 6 kg at the price Rs. 14 per kg, 4kg at the price Rs.16 per kg and remains only 2kg at the price Rs. 20 per kg. This is the complete description that the quantity demanded is decreasing with the increase in the price, thus demand is the function of price and the quantity demanded is inversely proportional to the price of a certain commodity.

### The Curve for the Law of Demand

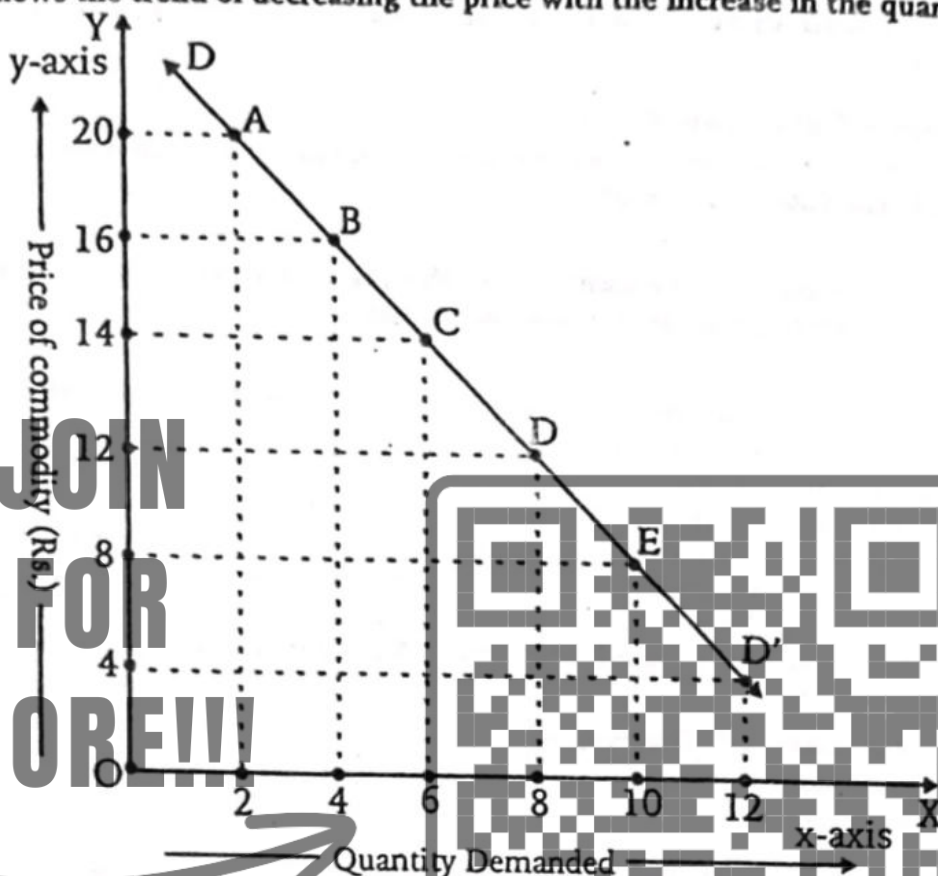
The Demand Curve is a curve which represents the change in the quantity demanded with respect to the change in price. Two lines are drawn for the representation of a demand curve. On the horizontal line OX, the quantity demanded is shown while on the vertical line OY the price of that commodity is shown. Different points on both lines OX and OY show the change in demand with respect to the change in price.

According to the Demand Curve DD', the price of the commodity has been shown on line OY while quantity demanded which has been shown on line OX, 'A', 'B', 'C', 'D' and 'E' are different points which show the relation between the price and the quantity demanded. This sketch shows that on the points OA, the price of the commodity is Rs. 20 per kg while the quantity demanded is





2kg, on the points OB, the price is Rs. 16 per kg and the quantity demanded is 4kg. On points OC the price is Rs. 14 and the quantity demanded is 6kg. On points OD the price is Rs. 12 and the quantity demanded is 7 kg while on the points OE, the price per kg is Rs. 10 while the quantity demanded is 8 kg and the price is Rs. 10. This curve DD' is called the Demand Curve. The Demand Curve falls upward to the downwards and also moves from leftwards to the rightwards. The demand curve shows the trend of decreasing the price with the increase in the quantity demanded.



**Q.2** Describe in detail the assumptions of the Law of Demand.

**Ans:** The Assumptions of the Law of Demand

Some conditions are necessary to be assumed in order to prove the accuracy of the Law of Demand. These conditions are called as the Assumptions of the Law of Demand. These assumptions can be described as following.

**(i) Similarity of the Units**

For the accuracy of the law of demand, the similarity of all the units is necessary. It means the items to be sold under the observation of this law must be same in the quantity and the standard.

**(ii) The Income of the Consumers Must not Change**

With change in the price if the income of the consumers is changed then this law will not come true. For example if the price of a certain commodity rises and the income of the consumer also increases, the quantity demanded will not decrease.

**(iii) The Taste of the Consumers Must not Change**

The quantity demanded also depends upon the taste or dislike. In this situation if the taste or likeness of the consumers is changed for a commodity then its quantity demanded would not be increased inspite of decreasing its price.

**(iv) The Probability of Rising the Price in Future**

If there is a probability of rising the price of a commodity exists, then its quantity demanded will be increased though there is no decrease in its price. Thus it is necessary for the accuracy of the law of demand that there is no probability of rising the price in future.



**(v) Change in Population**

The change in the structure and composition of the population also produces its effects on the quantity demanded. For example, if the population of a certain area is increased then the quantity demanded in that area will also be increased inspite of owing high price. Thus for the accuracy of the law of demand, it is a condition that there is no change in the population of a certain area.

**Q.3** Describe the factors affecting the Demand. Describe in detail the factors which are responsible for changes in demand.

**Ans: The Factors Responsible for Changes in Demand**

The factors which are responsible for producing changes in demand can be described as following.

**(i) Changes in Taste**

Demand depends upon taste. The taste of certain commodity compels a consumer for buying it. If the taste of the consumers gets changed regarding to a particular commodity then its demand decreases.

**(ii) Changes in Fashion**

The consumers always like those commodities which are according to the latest fashion. If the fashion related to certain commodities has become out of date, then their demand decreases.

**(iii) Changes in Season**

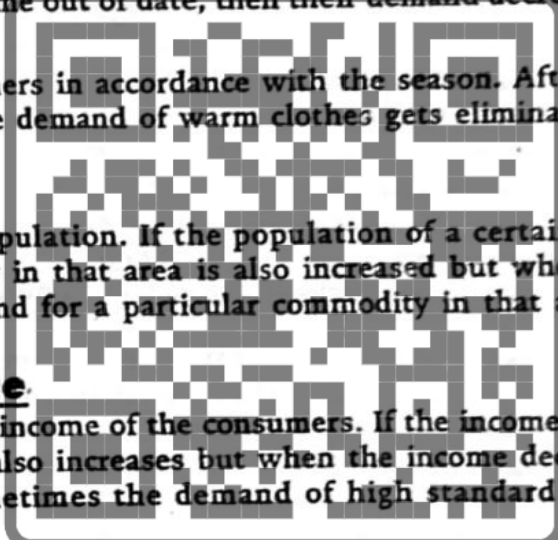
Some commodities are used by the consumers in accordance with the season. After the season their demand also decreases. For example the demand of warm clothes gets eliminated in the summer season.

**(iv) Changes in Population**

Demand depends upon the number of population. If the population of a certain area increases then the demand for a certain commodity in that area is also increased but when the population of certain area decreases then the demand for a particular commodity in that area is also decreased.

**(v) Changes in Consumers' Income**

The quantity demanded depends upon the income of the consumers. If the income of the consumers increases then the quantity of demand also increases but when the income decreases then the quantity demanded also decreases. Sometimes the demand of high standard goods increases.





## IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) The increase in the income of the consumer, causes an increase in:
  - (a) Demand (b) Supply (c) Production (d) All of these
- (2) The part of income which is left after meeting the expenses is called:
  - (a) Consumption (b) Supply (c) Savings (d) Profit
- (3) When the price of commodity falls, its demand:
  - (a) Contracts (b) Diminishes (c) Increases (d) Decreases
- (4) When the price of commodity rises, its demand:
  - (a) Expands (b) Contracts (c) Ends (d) Decreases
- (5) Demand is a function of:
  - (a) Income (b) Price (c) Money (d) All of these
- (6) The Demand Curve usually slopes from:
  - (a) Left to right (b) Right to left
  - (c) Right to left upward (d) Left to right downward
- (7) Demand curve has a:
  - (a) Positive Slope (b) Negative Slope (c) Vertical Slope (d) Horizontal Slope
- (8) The demand curve shows the functional relationship between price and:
  - (a) Quantity supplied (b) Quantity demanded
  - (c) Income (d) Supply
- (9) When the quantity of a good rises due to fall in price, it is called:
  - (a) Expansion (b) Increases (c) Decreases (d) Contraction
- (10) The condition for Demand are:
  - (a) Two (b) Three (c) Four (d) Five
- (11) If will to purchase and power to purchase both are present in a wish or desire then it is called:
  - (a) Utility (b) Consumption (c) Demand (d) Supply
- (12) The curve which shows a relation the change of the quantity demanded with respect to change in price is called:
  - (a) Straight line (b) Line segment (c) Demand curve (d) Consumption curve





## CHAPTER 6

## SUPPLY

## IMPORTANT SHORT QUESTIONS &amp; ANSWERS

Q.1 Define the following terms:

(i) Supply

(ii) Stock

(iii) Supply Schedule

(iv) Supply Curve

Ans: (i) **Supply**

The quantity of goods or number of certain things which is offered for sale at a given price, at a certain place in a particular period of time is called Supply. For example 500kg of sugar is brought to the market for sale at Rs. 65 per kg this quantity of sugar is called as Supply in Economics.

(ii) **Stock**

The total quantity of a commodity which is present in the market for sale at a reserve price in a specific period of time is called as "Stock".

(iii) **Supply Schedule**

A list that shows the various quantities of a commodity which are offered for sale in the market at different prices is called "Supply Schedule".

(iv) **Supply Curve**

The diagrammatic representation which shows the relation between the quantity of supply with respect to price is called as Supply Curve.

Q.2 Write the differences between Stock and Supply.

Ans: **Difference b/w Stock and Supply**

STOCK	SUPPLY
(1) The total quantity of a commodity which is available in the market for sale is called Stock.	(1) The part of the stock which is offered for sale in the market is called Supply.
(2) Stock has an indirect relation with price, so it is related to reserve price.	(2) Supply has a direct relation with price, so it is related to market price.
(3) Stock is increased with the decrease in price of a commodity.	(3) Supply is decreased with the decrease in price of a commodity.
(4) Stock has no elasticity.	(4) Supply has elasticity.
(5) Stock is movable by means of supply of commodity.	(5) Supply is always movable.
<b>Example:</b> If 8000 kg of sugar is available in the market for sale then the quantity is called Stock.	<b>Example:</b> If 5000 kg of sugar is offered for sale at Rs. 65 per kg from the total quantity of 8000 kg then 5000 kg is called as Supply.



**Q.3** State the "Law of Supply".

**Ans:** **The Law of Supply**

A relation between the quantity of supply and the price is called as the Law of Supply. It is stated as following.

*"Other things remaining the same, if the price of a certain commodity increases its supply expands, and if the price decreases, it supply contracts."*

**Q.4** State the assumptions of the Law of Supply.

**Ans:** **The Assumptions of the Law of Supply**

The assumptions of the law of Supply are following.

- (i) The cost of production does not change.
- (ii) The techniques of production do not change.
- (iii) The prices of machines and raw material do not change.
- (iv) The conditions for supply remain constant.
- (v) The prices of other substitute goods do not change.

**Q.5** Describe the factors which are responsible for the change in supply. Describe the causes of change in supply. Describe the factors affects the quantity of supply.

**Ans:** **The Factors Responsible for the Change in Supply**

The factors which are responsible for producing changes in the quantity of supply can be described as following.

**(1)** **The Importance of Time Factor**

The supply of a certain commodity has a very close relation with the period of its production, therefore time factor has a great importance for the supply. If a commodity can be produced within a very short period of time then its supply can also be increased by means of its instant production. On the other hand some goods require a long period of time for their production, so such goods cannot be supplied instantly. For example labour cannot be produced instantly similarly grains cannot be produced instantly, so the quantity of supply of such commodities is also affected by the change in prices.

**(2)** **The Changes in Cost of Production**

The change in the prices of the factors of production brings changes in the cost of production. When the cost of production of a certain commodity rise while its selling price remains on the previous level, then the supply will be decreased because of the profit of the production will decrease on increasing the cost of production. Consequently the collective supply will tend to decrease more and it may be that a few producers will stop their production.





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1 Distinguish between Stock and Supply.**

**Ans: Stock and Supply**

The total quantity of a commodity which is available for sale in the market in a specific period of time is called as Stock. While supply is that part of the stock which is offered for sale in the market on a certain price. For example if 8000 kg of sugar is available with the sellers in a certain market. The sellers intend to sell this total quantity at a reserve price Rs. 60 per kg. On the other hand the buyers are willing to buy it at Rs. 40 per kg. If the sellers are ready to sell some quantity at this offered price and they bring 5000 kg for sale in the market. So 5000kg of sugar will be considered as supply while the remaining 3000 kg of sugar which has been held back on a higher price will be considered as Stock.

Supply has a very close relation with the price because the supply is determined by the rise and fall in price. The supply of a commodity is increased with the increase in price and is decreased with the decrease in price. It is because that the profit of the suppliers is increased on the higher prices and they increase the supply in order to gain more profit. On the other hand, when price fall, the profit of the suppliers is also decreased, so they decrease the quantity of supply for sale in order to minimize their loss.

**Q.2 State the Law of Supply and explain it with the help of a Schedule and Curve.**

**Ans: The Law of Supply**

A relation which describes the quantity of supply and the price is called as the Law of Supply. This law states:

*"Other things remaining the same, when the price of a certain commodity rises and its supply also extends but when the price falls, its supply contracts."*

### Explanation

The Law of Supply is just opposite to the law of demand, it describes the relationship between the price and supply. It is a fact that the price of a commodity is connected to its supply. A change in supply is responded to change of its price. If the price rises the supply also increases and when the price decreases, the supply also decreases. Thus the supply is directly proportional to the price. Because of such relationship, the supply curve, contrary to the demand curve moves from left to right in upward direction.

### Supply Exchange

A supply schedule represents the various prices of a particular commodity with its various quantities of supply offered for sale in the market.

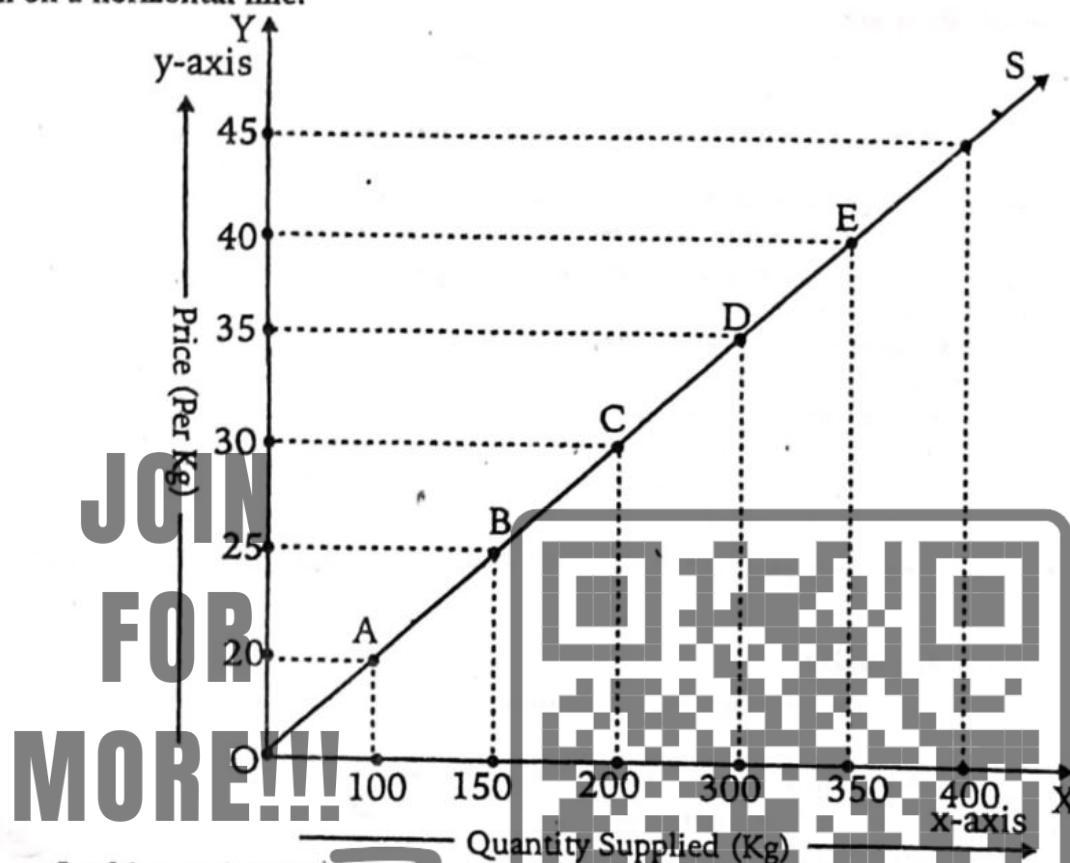
Price per kg (in rupees)	The Quantity of Supply (kg)
Rs. 20	100 kg
Rs. 25	150 kg
Rs. 30	200 kg
Rs. 35	300 kg
Rs. 40	350 kg

According to this schedule, the quantity of supply is increasing with the increase in price. The supply of the commodity is 100kg at the price Rs. 20 per kg. The supply increases and becomes 150kg at the price Rs. 25 per kg, 200kg at the price Rs. 30, 300kg at the price Rs. 35 per kg. When the price becomes Rs. 40 per kg then the quantity of supply becomes 350kg.



**Supply Curve**

When various quantities of supply offered for sale in the market at different prices is shown with the help of a diagram then it is called as Supply Curve. Two lines are drawn for obtaining a supply curve. The price is shown on vertical line while the quantities of supply are shown on a horizontal line.



In this graphical sketch, the price is shown on the axis OY while the quantity of supply is shown on OX. According to this diagram, when the price is Rs. 20 per kg then the quantity supplied is 100kg which is represented by the line OA. On the line OB, the price is Rs. 25 per kg therefore the quantity supplied is increased as 150kg. On the line OC, the price is Rs. 30 per kg and the quantity supplied is 200kg. On the line OD, the price is Rs. 35 and the quantity supplied is 300kg. On the line OE, the price is Rs. 40 per kg and the quantity supplied is increased as 350kg. OS is the supply curve which represents the quantities supplied on different prices.

**Q.3 State the assumptions of the Law of Supply.**

**Ans: The Assumptions of the Law of Supply**

There are certain conditions to be necessary in order to prove the accuracy of the law of supply, these conditions are known as the assumptions of the Law of Supply. The assumptions of the Law of Supply can be described as following.

**(i) No Change in the Cost of Production**

For the accuracy of the law of supply, it is necessary that there is no change in the cost of production. When the cost of production of a commodity increases there will be increase in its price for sale in the market. In this condition when the price has already been increased, it is not necessary that the quantity supplied is also increased. Thus the increase in the price for sale in the market will not be more attractive for the producers because of increasing the cost of production. So, it may be possible that there will be no increase in the quantity supplied.

**(ii) No Change in the Techniques of Production**

Sometimes when new techniques are introduced for the production of a commodity then the cost of production are decreased. In this condition the quantity supplied may be increased



without making any change in the price which is not correct for this law. So, for the accuracy of this law it is necessary that there is no change in the techniques of production.

(iii) **No Change in the Prices of Machines and Raw Material**

Raw material has its basic importance in the production of a certain commodity. Similarly different kinds of tools and machines also pay their role in order to produce a change in the cost of production. So, when the prices of raw material and machines are increased then the price for the sale of such items is also increased. In this condition, more profit is not gained inspite of increasing the prices.

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**IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) The part of stock that is offered for sale at a particular price is called:  
(a) Demand (b) Supply (c) Value (d) Price
- (2) When the price of commodity falls, its supply:  
(a) Expands (b) Contracts (c) Decreases (d) Diminishes
- (3) When the price of a commodity rises, its supply:  
(a) Contracts (b) Expands (c) Flies (d) Roats
- (4) The rise and fall of a supply of a certain commodity takes place because of:  
(a) Change in demand (b) Change in price  
(c) Change in value (d) Change in utility
- (5) The expansion in the supply of a certain commodity is occurred due to:  
(a) Increase in utility (b) Increase in price  
(c) Increase in stock (d) Increase in cost of production
- (6) The contraction in the supply of a certain commodity is occurred due to:  
(a) Increase in price (b) Decrease in price  
(c) Increase in stock (d) Decrease in stock
- (7) The total quantity of goods available in the market for sale is called:  
(a) Demand (b) Value (c) Stock (d) Supply
- (8) Supply curve usually slopes from:  
(a) Right to left (b) Left to right  
(c) Left to right downward (d) Left to right upward
- (9) The quantity supplied of a certain commodity has a close relation with:  
(a) Labour (b) Transport (c) Price (d) Wealth
- (10) The quantity of goods which is offered for sale at a given price is called:  
(a) Demand (b) Supply (c) Stock (d) Utility
- (11) Some of the producers may stop their production because of increasing the:  
(a) Profit (b) Demand (c) Market Value (d) Cost of Production
- (12) The Law of Supply is just opposite to the:  
(a) Law of Demand (b) Law of Marginal Utility  
(c) Law of Return (d) Law of Stock
- (13) It is not an assumption of the Law of Supply:  
(a) No change in the taste of consumers (b) No change in the cost of production  
(c) No change in the techniques of Production  
(d) No change in the prices of raw material and machines
- (14) An increase in the quantity supplied gives the producers:  
(a) More profit (b) More utility (c) Less profit (d) Less utility
- (15) Supply schedule and supply curve both show the relationship between:  
(a) Demand and Price (b) Value and Utility  
(c) Supply and Price (d) Stock and Supply



**CHAPTER 7****THE DETERMINATION OF PRICE****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** Define the following terms:

(i) **Commodity**

(ii) **Price**

(iii) **Equilibrium Price**

**Ans: (i) Commodity**

A product of good which can be sold in market in order to earn profit is called as Commodity. In Economics, all such goods which are required to satisfy human wants are considered as commodities. All commodities have certain demand and supply in the market.

**(ii) Price**

The amount of money for which something is sold, bought or offered is called as Price. In Economics, the value of a commodity or a service when expressed in terms of money, it is called Price.

**(iii) Equilibrium Price**

The price at which the quantity demanded becomes equal to the quantity supplied is called as Equilibrium Price. It is the price at which the forces of demand and supply are balanced or tend to be an equilibrium.

**Q.2** Describe the concept of Equilibrium of Demand and Supply. What is meant by the concept of Equilibrium. Explain.

**Ans: The Concept of Equilibrium of Demand and Supply**

Demand and supply are the two such forces which in the opposite direction regarding to price. When the price rises of a certain commodity then its quantity demanded falls but the quantity supplied goes up on the other hand when the price falls, its quantity demanded increases but its quantity supplied is decreased. The quantity supplied is increased in accordance with the increase in the price. So, the entrepreneurs gain more profit in this condition. On the other hand when the price falls then the quantity supplied is also decreased, thus the entrepreneurs gain less profit in this condition. When the price of a certain commodity increases then its demand contracts as the purchasing power of the buyers fall down under this condition. When the price falls, the demand expands as the purchasing power of the buyers increases. The price is determined between the two limits. Following a change in price these two forces of demand and supply become equal at a certain price. Thus the price at which the quantity demanded and the quantity supplied for sale are equal is called price. Thus the price at which the quantity demanded and the quantity supplied for sale are equal is called as Equilibrium Price and the point at which these two quantities are equal is called as Equilibrium of demand and supply.





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** Define Equilibrium Price. How an Equilibrium Price determined? Describe the determination of the Price of Perishable goods and durable goods in market.

**Ans:** Equilibrium Price

The price at which the quantity demanded becomes equal to the quantity of supplied is called as Equilibrium Price.

### The Determination of Equilibrium Price

An equilibrium price is determined by the interaction of the forces of demand and supply related to concerned goods. These two forces are the function of price though they behave differently with the demand and the supply of goods. When the price rises, its quantity demanded increases but its quantity supplied decreases. On the other hand, when the price falls, its quantity demanded falls but the quantity supplied is increased. Following a change in the price, these two forces move into opposite direction to adjust each other. Ultimately at a certain price, they become equal to each other and this price is taken as Equilibrium Price.

### The Determination of the Price of Perishable

In case perishable good like milk, vegetables, fruits, fish etc. the supply is kept limited by the available quantity in a day or so. The whole of their quantity must be sold away in a limited period at whatever the price may be received in the market. However, a demand force play its significant role in the determination of price.

### The Determination of the Price of Durable Goods

The supply of durable goods remains constant in market period. It cannot be increased or decreased. The supply can be decreased when the price falls, thus the entrepreneurs tend to withhold these goods in their stock. Thus demand plays a very significant role in the determination of the price of durable goods as compared to that of supply.

**Q.2** How prices are determined in the market? Explain your answer with the help of a schedule and a diagram.

**Ans:** Market Price

The market period consists of a day or more or less the period equals to a day, therefore the price which is determined by the equilibrium of demand and supply during a day is called as Market Price.

### The Determination of Price in a Market

Demand and supply are two forces which act in opposite direction in accordance with the change in price. It is not possible to make an effective change in supply during the market period therefore the supply is usually kept fixed. The demand produces more effect in the determination of price during market period. When the demand of a commodity increases then its price is also increased and if the demand decreases, then the price is also decreased. Thus the price which is determined in the market period is a temporary price which often receives changes. Thus the price in market is determined by the equilibrium of demand and supply.

### The Schedule for the Equilibrium of Demand and Supply

A list which represents the relation between the quantities demanded and the quantities supplied with respect to change in price is called as the schedule for the equilibrium of demand and supply. A schedule showing these relationship can be shown as following.

Price per kg(In rupees)	Quantity Demanded(in kg)	Quantity Supplied (in kg)
Rs. 20	500 kg	200 kg
Rs. 30	450 kg	250 kg

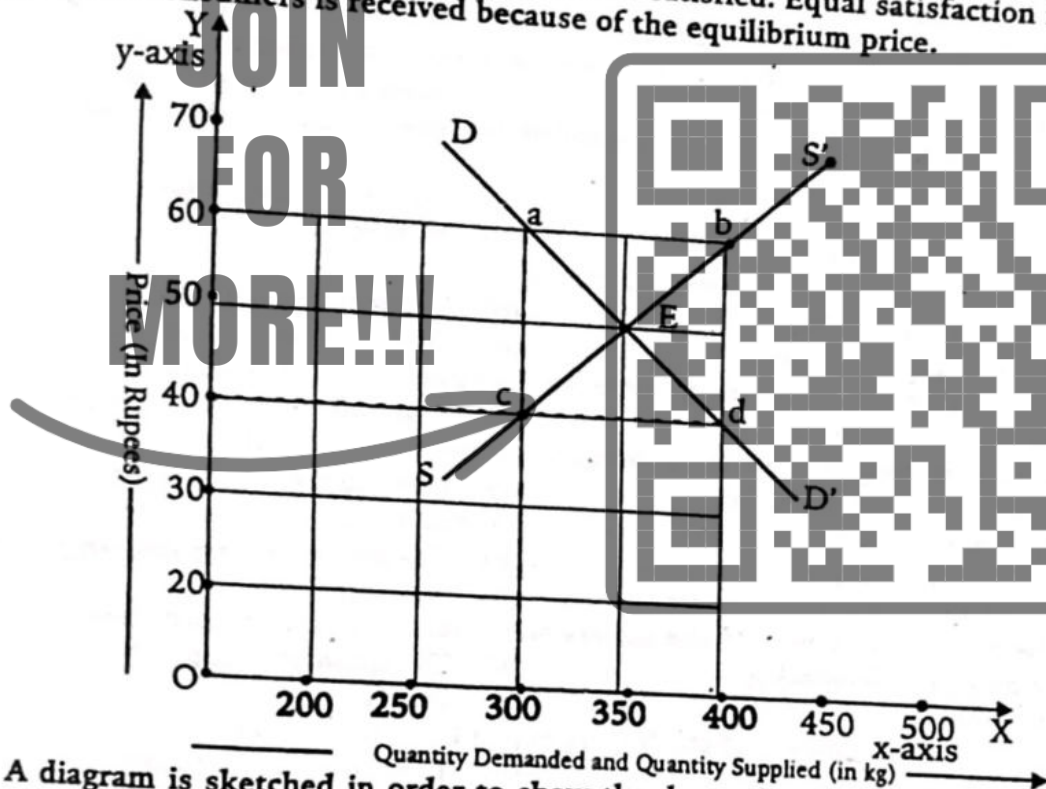


Rs. 40		
Rs. 50	400 kg	300 kg
Rs. 60	350 kg	350 kg
Rs. 70	300 kg	400 kg
Rs. 80	250 kg	450 kg
	200 kg	500 kg

According to this schedule, Rs. 50 is the price at which the demand and supply both are equal, therefore this price is called as "Equilibrium Price". It is considered that the price if increased from Rs. 50 kg then the quantity demanded decreases while the quantity supplied is increased. On the contrary, if the price falls from Rs. 50 then the quantity supplied decreases but the quantity demanded is increased. Thus, in these both conditions there is no equilibrium established between the forces while at the equilibrium price the quantity demanded and the quantity supplied both become equal.

### The Curves of Demand and Supply

At equilibrium price, the quantity demanded remains equal with the quantity supplied therefore the commodities always available for the use of the consumers and the sale of the consumers is also remains continue, so both become satisfied. Equal satisfaction is gained both the producers and the consumers is received because of the equilibrium price.



A diagram is sketched in order to show the determination of price. In the diagram, two lines are sketched in horizontal and vertical directions. OY is the vertical line on which the price in rupees is shown. OX is another line which is drawn with the horizontal on which the quantity demanded and the quantity supplied are shown. According to this diagram the point 'E' is the point at which the demand curve intersects the supply curve. It means the quantity demanded is equal to the quantity supplied. SS' and DD' both represent the supply curve and the demand curve respectively. Thus the point 'E' is the equilibrium point of the demand and supply. The price which has been mentioned at this point is Rs. 50 per kg and it is called as the Equilibrium Price.

If the price expands than the equilibrium price then the quantity supplied will increase but the quantity demanded will be decreased. Similarly if the price gets decreased as compared to that of the equilibrium price then the quantity demanded will increase while the quantity supplied will be decreased. In both cases, the equilibrium of the demand and supply is distributed, so these prices will not last longer; however the equilibrium price will remain stable for a longer period because the quantity demanded and the quantity supplied both are equal or same at this price.



**IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) The price at which demand and supply are equal is called:  
 (a) Equilibrium Price (b) Amount of Demand  
 (c) Amount of Supply (d) None of these
- (2) The equilibrium price is determined when:  
 (a) Quantity demanded is greater than quantity supplied  
 (b) Quantity demanded is equal to quantity supplied  
 (c) Quantity demanded is less than quantity supplied  
 (d) None of these
- (3) The equilibrium price is determined by:  
 (a) Demand only (b) Supply only  
 (c) Interaction of demand and supply (d) Stock
- (4) Market period consists of:  
 (a) Few days (b) Few months (c) A year (d) 10 years
- (5) The equilibrium of the demand and supply help in the determination of:  
 (a) Value (b) Utility (c) Savings (d) Price
- (6) The point at which the quantity demanded becomes equal to the quantity supplied is called:  
 (a) Saturation point (b) Concentration point  
 (c) Equilibrium point (d) Market price
- (7) Demand and supply are two forces which act:  
 (a) Parallel to each other (b) Vertical to each other  
 (c) Opposite to each other (d) Direct to each other
- (8) The increase in the price causes to increase the supply but it is decreased:  
 (a) Value (b) Power (c) Demand (d) Desire
- (9) The decrease in the price causes to increase the demand but it decreases:  
 (a) Value (b) Utility (c) Usefulness (d) Supply
- (10) The entrepreneurs gain less profit in case of increasing the price because:  
 (a) The quantity supplied increases (b) The quantity supplied decreases  
 (c) The quantity demanded decreases (d) None of these
- (11) When the purchasing power of the buyers minimizes, it causes to decrease:  
 (a) The quantity demanded (b) The quantity supplied  
 (c) The Value (d) Utility
- (12) When the purchasing power of the buyers expands, it causes to increase:  
 (a) The Utility (b) The Quantity Supplied  
 (c) The Quantity Demanded (d) The Value
- (13) The entrepreneurs gain more profit in case of decreasing the price because:  
 (a) The Quantity Supplied Increases (b) The Value Decreases  
 (c) The Quantity demanded decreases (d) None of these
- (14) The price is determined on the basis of:  
 (a) The equilibrium between stock and supply  
 (b) The equilibrium income and savings  
 (c) The equilibrium between demand and supply  
 (d) The equilibrium between value and utility
- (15) The entrepreneurs and the consumers both receive satisfaction when:  
 (a) Monopoly exists in market (b) Competition exist in market  
 (c) Higher price exists in market (d) Equilibrium price exist in market
- (16) Demand Curve and Supply Curve both intersect each other at:  
 (a) Centre (b) Origin (c) Equilibrium Point (d) X-axis





- (17) It provides the same satisfaction to both the consumers and the sellers:
- (a) Higher Price
  - (b) Concentration Price
  - (c) Market Price
  - (d) Equilibrium Price
- (18) At which price of commodities the quantity demanded equals to the quantity supplied:
- (a) Market Price
  - (b) Good Price
  - (c) Deducted Price
  - (d) Equilibrium Price
- (19) The concept of Equilibrium in the determination of price is related to:
- (a) The equilibrium of stock and supply
  - (b) The equilibrium of stock and demand
  - (c) The equilibrium of demand and supply
  - (d) The equilibrium of market value and real value
- (20) This price of commodities is also known as long-run price:
- (a) Attractive Price
  - (b) Equilibrium Price
  - (c) Normal Price
  - (d) Variable Price

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**CHAPTER 8****PRODUCTION AND DISTRIBUTION  
OF WEALTH****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** What is meant by Production in Economics. Define production in few sentences. Explain the term of production of wealth in Economics.

**Ans:(i) Production of Wealth or Production**

All the human efforts, which create additional utility and additional exchange value in goods or services as called as Production or Production of Wealth.

- (i) It refers to those human efforts which result in creation of goods and services to be used for satisfaction.
- (ii) Production is not the creation of matter because man can neither create nor eliminate matter. The material goods are produced by the application of human efforts on matter which is created by nature.
- (iii) In the process of production man simply converts matter into goods with his mental or physical efforts. The goods and services produced by the application of human efforts command a price and are used for the satisfaction of wants.

**Q.2** Define the following terms:

- (i) Production
- (ii) Distribution
- (iii) Consumption

**Ans:(i) Production**

The process in which the human efforts are involved in the creation of additional utility and additional exchange value for the development of material goods and services is called Production of Wealth or Production. These goods and services are used for the satisfaction of human wants.

**(ii) Distribution**

The payment of the remunerations to all factors of production for their services in production is called as Distribution of Wealth or Distribution. The production is related to the collective efforts of the factors of production land, labour, capital and organization, therefore distribution is a process in which the remunerations are paid to all these factors of production.

**(iii) Consumption**

All those human activities which are directly related to immediate satisfaction of wants is called Consumption. It is the process in which goods or services are used for satisfying human wants. As goods and services both have price, therefore this process is also considered as the consumption of wealth because the buyers spend their money for satisfying their wants through goods or services.



Q.3 Define the following terms:

(i) Capital

(ii) Rent

(iii) Wage

Ans: (i) **Capital**

The part of wealth which is used for the further production of wealth is called as Capital. It has central position among all the four factors of production. The production is not possible without capital. The term capital is used for all man-made means of production consisting of such items as buildings, factories, machinery, tools, equipments, raw materials, vehicles and inventories goods in stock. Thus capital is actually a collection of land and human labour.

(ii) **Rent**

The remuneration which is received by the piece of land as a factor of production is called as Rent. Net Rent and Gross Rent are the two kinds of Rent. In ordinary language the term 'Rent' is used as the hiring charges of durable goods like house rent, the rent of shop, taxi etc. but in Economics it is related to the remuneration of land.

(iii) **Wage**

All sorts of payments which are made for the services of labour, whether it is done mentally or physically are called as Wage. It is actually the remuneration of labour being the factor of production. It includes fees, salaries and commissions.

Q.4 Define the following terms:

(i) Profit

(ii) Interest

(iii) Entrepreneur

Ans: (i) **Profit**

The remuneration which is received by an entrepreneur in regard to his duties and responsibilities of organizing the factors of production is called as Profit. It is the amount left with an entrepreneur after he has made payments to all factors of production.

(ii) **Interest**

The remuneration which is paid to the capital after its use as a factor of production is called as Interest. It is the price or reward which a borrower or debtor has to pay to the lender or creditor for the use of loaned money or credit. It is generally expressed in percentage.

(iii) **Entrepreneur**

A person who starts a business with his own capital and provides the capital and determines the scale of production by taking financial risks is called as Entrepreneur. He is the person who collects all the factors of production, coordinates them, supervises the process, purchases raw-materials. Sells furnished goods and bears the risk of profit and loss.

Q.5 Write the names of the factors of production. What do you mean by Factors of Production? Describe each of them in some sentences.

Ans: **The Factors of Production**

All those factors which are necessary for the production are called "The Factors of Production". These factors play an important role in the process of production. Their collection makes a way which goes to the production. The factors of production are following.

(i) **Land**

In ordinary language, land means simply the surface of the earth but in Economics besides the surface of the earth, all mineral resources hidden under the surface of the earth and all those which are found in the atmosphere are collectively considered as Land.

(ii) **Labour**

All physical and mental efforts made by humans for the production of goods or services which are undertaken in the expectation of reward are called Labour. It is the second important factor of production. According to the definition all classes of workers are included in labour. It is classified as physical labour, mental labour and skilled labour.



**(iii) Capital**

The part of wealth which is used for the further production of wealth is called as Capital. It is the third and important factor of production. The production is not possible without capital therefore it has a central position in production. The term capital is used for all man-made means of production on consisting of items such as buildings, factories, tools, machinery, equipments and inventories in stock.

**(iv) Organization**

The factors of production which brings together all other three factors i.e. land, labour and capital and makes the production possible is called Organization. The person who makes the organization possible is considered as Organizer or Entrepreneur.

**Q.6 Who is an Organizer? Mention some responsibilities of an organizer in the production of wealth.**

**Ans: Organizer**

A person who organizes the three factors of production land, labour and capital and makes the production possible is called as an Organizer. He is rightly called as the manager or director.

**Responsibilities of an Organizer**

Some responsibilities of an organizer are following:

- (i) An organizer looks after the technical and organizational efficiency in a specific field of production.
- (ii) He is an expert of utilizing the factors of production for making the production with required quantity and standard.
- (iii) He is responsible for maintaining the standard, quality and quantity of production.
- (iv) An organizer is responsible in full regarding production. He performs the functions to look after the problems related to labour, purchasing of raw-material, sale of final goods, quantity and standard of production.
- (v) An organizer is not directly a risk-bearer but it is his responsibility to lead the production in proper way in order to achieve the basic goal of earning profit.

**Q.7 Who is an Entrepreneur? Write down some important responsibilities of an Entrepreneur.**

**Ans: Entrepreneur**

A person who not only organizes the factors of production but also provides the capital and determines the scale of production is called as Entrepreneur.

**Responsibilities of Entrepreneur**

Some important responsibilities of entrepreneur are following.

- (i) An entrepreneur not only organizes the factors of production but it is his responsibility to provide the capital from his own funds.
- (ii) It is the responsibility of an entrepreneur to determine the scale of production on considering his resources and skills.
- (iii) He gives suggestions and determines the objectives of the business planning.
- (iv) He is responsible for the profit or loss in production. He is the alone owner of the profit and bears the loss also alone.
- (v) He acts as a chief advisor, so he can hire the services of a manager director or an organizer in order to achieve his objectives of production.



**Q.8** Write the points of difference between an Organizer and an Entrepreneur.

**Ans:** Difference between Organizer and Entrepreneur

ORGANIZER	ENTREPRENEUR
(1) A person who organizes the three factors of production and makes the production possible in proper way is called Organizer.	(1) A person who not only collects the factors of production but also provides his own capital for the production is called Entrepreneur.
(2) An organizer acts as a manager or director in the supervision of the production of wealth.	(2) An entrepreneur acts as the owner and chief advisor in the supervision of the production of wealth.
(3) An organizer receives wages for the provision of his technical efficiency and organizing skills.	(3) An entrepreneur shares in profit and loss due to his efforts and the investment of capital.
(4) The investment of capital from personal funds is not necessary for an organizer.	(4) The investment of capital from personal funds is necessary for an entrepreneur.
(5) The responsibilities of an organizer are limited because he is not a risk-bearer.	(5) The responsibilities of an entrepreneur are unlimited because he is a risk-bearer.

**Q.9** Define Rent and state its two kinds.

**Ans:** Rent

The remuneration of land as a factor of production is called as Rent. It refers to the payment which is paid by a tenant to the landlord for the use of his land.

**Kinds of Rent**

There are two kinds of rent which are following.

(i) Net Rent

The amount which is paid as the remuneration only for the use of land as a factor of production is called Net Rent. It is paid for the fertility and other characteristics of land.

(ii) Gross Rent

The total amount which is paid as the remuneration of the use of land along with the use of other facilities provided by the land owner is called as Gross Rent. Gross rent includes net rent, interest, wages and profit.

**Q.10** Differentiate between Net Rent and Gross Rent.

**Ans:** Difference between Net Rent and Gross Rent

NET RENT	GROSS RENT
(1) The amount of money which is paid only for the use of land for agricultural or commercial purpose is called Net Rent.	(1) The total amount of money which is paid besides the net rent for the use of other facilities is called as Gross Rent.
(2) It is the remuneration for the land which is paid purely for its characteristics in the process of production.	(2) It is the additional remuneration besides the net rent for the use of additional facilities.
(3) It is only the remuneration of the use of land and it has no relation with the other factors of production.	(3) It is the additional remuneration besides the net rent because it contains interest, wages and profit also.
(4) Net rent is just a payment which is done only for the use of land.	(4) Gross net is the sum of payments and its components are net rent, interest, wages and profit.



(5) Net rent can be expressed by the following equation.  

$$\text{Net Rent} = \text{Payment for the use of land}$$

(5) Gross rent can be expressed by the following equation.  

$$\text{Gross Rent} = \text{Net rent} + \text{Interest} + \text{Wages} + \text{Profit}$$

**Q.11 Define Wage in the words of Professor Benham.**

**Ans: Wage**

Labour has great importance as a factor of production, as a labourer plays a role in the production through his mental or physical efficiency. So, the amount of money which is paid as the remuneration of labour is called as Wage. Professor Benham states:

"Wage is the remuneration of the physical or mental labour which is paid by the entrepreneur to a worker under a settled contract."

(Professor Benham)

**Q.12 Define Profit and describe its kinds.**

**Ans: Profit**

The remuneration of an entrepreneur which is obtained after taking the business risks is called as Profit. It is the reward of an entrepreneur for his services. The total amount which is received by an entrepreneur after the sale of certain quantity of production, if the cost of production is deducted from it then the residual amount is called as Profit.

**Kinds of Profit**

There are two kinds of profit which are following.

**(i) Net Profit**

The remuneration of an entrepreneur which is received as a reward of organizational work and the acceptance of the responsibility of sharing profit or loss in business is called Net Profit. It is the amount which is obtained after the deduction of expenditure costs and implicit costs from the total amount of sale of certain production.

**(ii) Gross Profit**

The remuneration of an entrepreneur which includes the payments for those factors of production which are under the ownership of the entrepreneur besides the net profit is called as Gross Profit. Gross Profit contains the components like net profit, rent of land, wages for management, accidental profit and the interest of capital and monopoly profit.

**Q.13 Difference between Net Profit and Gross Profit.**

**Ans: Difference b/w Net Profit and Gross Profit**

NET PROFIT	GROSS PROFIT
(1) The remuneration of an entrepreneur which is derived from the deduction of costs from the total amount of sale.	(1) The remuneration of an entrepreneur in which other payments are also included besides the net rent is called as Gross Profit.
(2) It is calculated by the deduction of costs from the total amount of money received by the sale of production.	(2) It is calculated by the addition of the payments like interest, rent, wages, accidental profit and monopoly profit in net profit.
(3) It is pure remuneration for the entrepreneur for bearing business risks.	(3) It is the sum of additional payments besides the net profit.
(4) It is the real profit of the entrepreneur.	(4) It is the additional profit of the entrepreneur.



(5) It is belonged to the services and responsibilities of the entrepreneur.

(5) It contains the components like rent of land, wages, interest for capital, accidental profit and monopoly profit besides net profit.

**Q.14 Define Land and write down its important characteristics.**

**Ans: Land**

In ordinary language land means simply the surface of the earth but in Economics, besides the surface of the earth, all mineral resources, natural resources hidden under the surface of the earth, water resources covering the surface of the earth and all those which are found in the atmosphere are collectively considered as Land. Thus, in Economics, Land means all free gifts of nature in the original form in which they exist.

### **The Characteristics of Land**

Important characteristics of Land are following.

**(i) Free Gift of Nature**

Land is a free gift of nature. Man has not produced it. Man has utilized his abilities to make the most of land. He has built dams, bridges, cities and towns on it but he has neither created nor produced it.

**(ii) Limited Productivity**

Land has limited productivity. In spite of using a lot of labour and capital, unlimited goods cannot be produced from a particular piece of land. If it had been possible, then only one piece of land or only one region of land could have produced crops for the whole population of the world.

**(iii) Fixed Quantity**

The quantity, volume and area of land cannot be increased or decreased, it remains fixed. On the other hand other three factors of production labour, capital and organization can be increased or decreased according to their requirements.

**(iv) Immovable**

Land is immovable factor of production. It cannot be shifted from one place to other. It always remains fixed to its location. In geographical sense land lacks mobility.

**(v) Differs in Fertility**

All the regions of the land in the world possess different qualities regarding their economic productivity. That is why some countries have deposits of minerals while other have none. There are dense forests in some regions of the world while some regions cover large deserts.

**Q.15 Define Labour and state some important characteristics of Labour.**

**Ans: Labour**

In Economics, all human efforts which are done mentally, physically or skillfully only for gaining a materialistic reward is called Labour. Labour is done for achieving materialistic advantages or remuneration. The efforts which are done only for obtaining recreation or entertainment are not classified as labour.

### **The Characteristics of Labour**

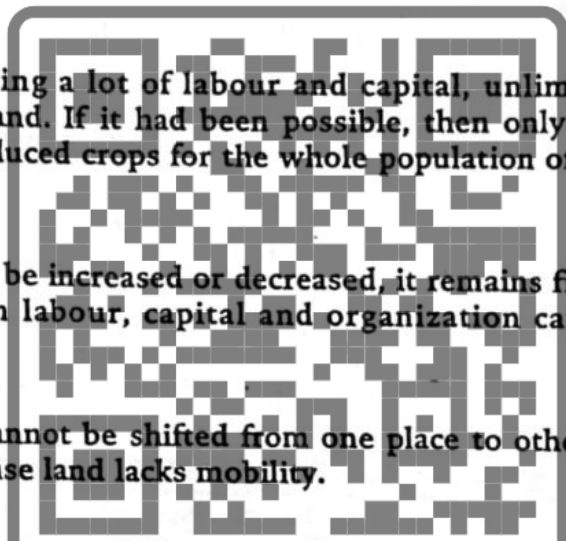
Important characteristics of labour are following.

**(i) The Most Perishable**

Labour cannot be stored or preserved for future. If a person or worker does not work on a certain day, his labour for that day is lost. It can neither be postponed nor accumulated for any other day.

**(ii) Inseparable from the Labourer**

Labour and labourer both are absolutely essential for each other. Labour cannot be separated from the labourer. Labour remains with labourer everywhere, it is the quality of a labourer through which he can receive benefits. It does not occur that farmer remains sitting at his





home and send his labour to work.

**(iii) Non-Elastic Supply**

The supply of labour is inelastic. The supply of labour cannot be increased or decreased immediately. If the demand of labourers is increased then new labourers cannot be employed immediately. Similarly, if the demand of labourers is decreased then the number of labourers cannot be decreased immediately, so the supply of labourers remains fixed for a long time.

**(iv) Weak Bargaining Power**

Labour has the weakest bargaining power as compared to that of other three factors of production. This is because labour being perishable either cannot be stored or postponed for any good time. Because of weak bargaining power of labour gets ready to work at low rate of wage as compared to his right.

**(v) Difference in Efficiency of Labour**

Different labourers have different efficiency to work. Some labourers are more efficient than others because of their good education and skills. As compared to them the others are less sufficient because of their poor education and training.

**Q.16 Define Capital. State the characteristics of capital. Describe the importance of capital in production of wealth.**

**Ans: Capital**

The profit of wealth which is utilized for the further production of wealth is called Capital.

(i)

According to Professor Adam Smith,

"Capital is that part of wealth which is used for gaining income."

(ii)

According to Professor Chapman,

"Capital is that part of wealth which produces or helps in producing income."

(iii)

According to Samuelson,

"Capital means such durable goods which are constructed in country's economy for further production. Machines, tools, factories, roads, railways, dams, power houses, computers all are included in it."

**The Characteristics of Capital**

Important characteristics of capital are following.

(i)

Capital is not a natural factor of production. It is man-made and produced as the result of human efforts.

(ii)

Supply of capital does not take place by itself. It is produced with the joint efforts of land and labour.

(iii)

Capital is a passive of production because it cannot make production by itself.

(iv)

It is a variable factor of production because its supply can be increased or decreased.

(v)

Capital is the most mobile factor of production because it can easily be transacted from one place to another. Savings and capital both are essential for each other.

**The Importance of Capital in Production**

The importance of capital in production of wealth can be described as following.

(i)

The development of agriculture depends upon the use of agricultural machinery and equipments. Per acre agricultural production is high in those countries where modern machinery like tractors, harvesters, thresher, tube-wells etc. are used for cultivation. All these machines are provided by capital.

(ii)

Industrial development also depends upon the availability of capital because all machines which are used in large scale production in industries are provided through capital.

(iii)

Exploring, mining and production of various kinds of minerals depends upon the use of machines. Precious metals, natural gas, mineral oil, coal etc. all are obtained by the use of machines and these machines are provided by the application of capital.

(iv)

Capital and its formation provide help in the development of trade and business.

(v)

Capital helps in the development of the means of transportation and communication, so all such goods are considered as capital goods.



## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** What is meant by Distribution of Wealth? Explain the remunerations assigned to the different factors of production.

**Ans:** Distribution of Wealth

When four factors of production land, labour, capital and organization work collectively then goods and services are produced, the rewards are given to the four factors of production in accordance to their services, thus the process of the payment of remunerations among the factors of production is called as the Distribution of Wealth.

### Remunerations of Rewards for the Factors of Production

The factors of production are following.

- (i) Land (ii) Labour (iii) Capital (iv) Entrepreneur

The production of wealth is possible due to the organized collection of these four factors of production, the production which is obtained, this process is called as "National Product". These factors of production act upon natural resources of a country for a period of one year and produce a certain aggregate goods and services and the income which is received through these goods and services is called as "National Income". As the national income is created by the joint efforts of land, labour, capital and organization, so it is distributed among themselves. Rent is paid as the remuneration of land to the landlord. Capital receives interest, wages are paid to the labourers and the profit goes to the entrepreneur. The remunerations or reward for the factors of production can be described as following.

**(i) Rent**

The payment which a tenant pays to the landlord for the use of his land is called Rent. Rent in common language is meant as the hiring charge of things like a house, buildings, shop etc. But in Economics only the remuneration for the use of land is called Rent. There are two kinds of rent which are following.

**(a) Net Rent**

The remuneration which a cultivator pays to landlord for the productive use of his land after a specific period is called as Net Rent. Net rent is the only reward for the use of land and there is no association of net rent with other payments. It is remuneration for the use of land only, other payments like the interest of the landlord's capital and the reward for the self labour of the cultivator do not include in it.

**(b) Gross Rent**

The total sum of money which is paid as the remuneration of other facilities provided by the landlord besides the net rent is called as Gross Rent. For example, a tube-well is operated on the land, the facilities of electricity and gas are available, house for living and tractor for ploughing are also provided by the landlord then the remunerations for all these facilities are paid and their sum will be Gross Rent.

**(ii) Wages**

Labourers have due importance as a factor of production. A labourer plays its role in the production through the involvement of his physical or mental labour or efficiency. The remuneration which is paid to a labourer as a reward of labour is called Wages. Wage thus the remuneration which an entrepreneur to a labourer in accordance to a settled agreement.

**(iii) Interest**

Capital is also required for the production of wealth. Raw material is purchased by using the borrowed capital, payment of wages is done to the labourers and other expenses also fulfilled. Generally, capital is borrowed, therefore the remuneration of the services is paid in the form of interest.





**(iv) Profit**

The general concept of profit is that if the remunerations of land, labour and capital are deducted from the total income obtained through production of wealth then the remaining amount is profit. This concept about the profit is correct but not comprehensive because the profit is considered as the remuneration of the capability and good management of the entrepreneur. He is the only agent who takes the risks associated with business enterprise. He collects the factors of production and establishes good association among them. He determines the quantity and standard of the production. He is also responsible for the sale and disposal of products. There are two kinds of profit.

**(a) Net Profit**

The remuneration which is obtained by an entrepreneur in exchange of the responsibility of the management of the business and for the acceptance of the risks associated with business is called Net Profit. The entrepreneur is responsible for all the problems of the business from its beginning to the time of its working. He faces the risks in business and tries to minimize them by using his capability and business skills. In order to accepting all these responsibilities he gets a remuneration in the form of Net Profit.

**(b) Gross Profit**

The remuneration which obtained by an entrepreneur after the payments of the remunerations of all rented factors of production from the total amount of the production is called as Gross Profit. It is also known as the compound profit. The entrepreneur has contributed his land, self labour and the capital from his own funds, therefore he also receives the rewards for all these factors of production besides the net rent. Thus following components are also included in Gross Profit besides the net rent.

- (i) Rent of Land
- (iii) Interest for Capital
- (v) Monopoly Profit

- (ii) Wage for Labour
- (iv) Windfall Profit

**Q.2 Define Gross Profit and describe the five components of the Gross Profit besides the Net Profit.**

**Ans: Gross Profit**

The remuneration of an entrepreneur which contains the payments of other factors of production like his labour, capital and land is called Gross Profit. It is the sum of net profit, rent for land, wage for his labour, interest for capital, accidental profit and monopoly profit.

**The Components of Gross Profit**

The components of Gross Profit are following.

**(i) Rent of Land**

Sometimes, entrepreneur uses his personal land for his business. If he takes the land on rent from other person for product then he has to pay the rent for land, so the rent of land is also included in the Gross Profit in both cases. It is the first and basic component of Gross Profit.

**(ii) Wage for Labour**

An entrepreneur takes part in production or business as a labourer. He renders his services in organizing the factors of production, supervises the process of production, these makes the production possible, therefore he also receives the wage for his labour, so the wage for labour of the entrepreneur is also included in the Gross Profit.

**(iii) Interest for Capital**

Entrepreneur commonly receive capital from the banks and other financial institutions and thus pay the interest for the capital, if an entrepreneur uses his own capital in his business, then the interest of the capital is also paid. Thus the interest for the capital is also a component of Gross Profit.



**(iv) Accidental Profit**

In certain circumstances which appear sudden effect on the prices of commodities. For example during war, political disintegration, curfew etc. produce certain circumstances for increasing the prices of commodities. Due to this sudden increase in prices, the profit rises enormously but there is no part of the organizational capabilities of the entrepreneur but this accidental profit is also a right of the entrepreneur. Thus accidental profit is also a component of Gross Profit.

**(v) Monopoly Profit**

Sometimes certain entrepreneurs have a monopolistic position in the production or sale of specific goods. It means they have an authority to control the quantity supplied of these items according to their will. The prices of these commodities run very high because of their monopolistic authority in production, thus they earn extraordinary high profit which is called as Monopoly Profit. There is no share of the eligibility and capability of the entrepreneur in this kind of monopoly profit. Thus this monopoly profit is also included in Gross Profit.

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# **IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) The payment made for the use of capital is:  
(a) Wages (b) Interest (c) Rent (d) Wealth
- (2) The first and the most important factor of production is:  
(a) Labour (b) Capital (c) Land (d) Organizer
- (3) The part of wealth which is used for further production is called:  
(a) Interest (b) Capital (c) Profit (d) Income
- (4) Which of the following is not a factor of production?  
(a) Land (b) Labour (c) Capital (d) Wages
- (5) The Economist whose theory of rent has made him famous is:  
(a) Professor Marshall (b) Professor Robbins (c) David Ricardo (d) Robert Malthus
- (6) The free gift of nature is:  
(a) Land (b) Men (c) Production (d) Country
- (7) In Economics, forests and minerals are part of:  
(a) Land (b) Capital (c) Rent (d) Labour
- (8) The definition of wages was first presented by:  
(a) Crowther (b) Benham (c) Ricardo (d) Marshall
- (9) The payment made for the use of land, is called:  
(a) Rent (b) Profit (c) Interest (d) Wages
- (10) Production is defined as:  
(a) Creation of Matter (b) Creation of Utility (c) Creation of Scarcity (d) Creation of Land
- (11) "Land" stands for:  
(a) All Natural Resources (b) All man-made resources (c) Only water resources (d) Only mineral resources
- (12) The sale of production is determined by:  
(a) Financial Resources (b) Production Techniques (c) Extent of the Market (d) All of these
- (13) The supply of Land is:  
(a) Unlimited (b) Limited (c) Highly elastic (d) Perfectly elastic
- (14) Mountains, rivers, machines, factories, vehicles and raw-material are:  
(a) Capital (b) Labour (c) Land (d) Investment
- (15) Land as a factor of production has the characteristics of:  
(a) Free gift of nature (b) Limited Supply (c) Different in fertility (d) All of these
- (16) All things or goods produced as the result of human labour are called:  
(a) Market Goods (b) Stored Goods (c) Capital Goods (d) Perishable Goods
- (17) The payment made for the use of labour in Production is called:  
(a) Capital (b) Interest (c) Wages (d) Rent
- (18) Capital is defined as:  
(a) Only money (b) Natural resources (c) Profit (d) Man-made means of production
- (19) The number of the factors of production is:  
(a) Two (b) Three (c) Four (d) Five
- (20) The reward or remuneration of capital, is called:  
(a) Profit (b) Interest (c) Rent (d) Wages
- (21) It is a direct result of savings:  
(a) Capital (b) Profit (c) Stock (d) Labour



- (22) Raw material, buildings, factories all are considered as:  
 (a) Land (b) Capital (c) Stock (d) Supply
- (23) He is called as the organizational expert:  
 (a) Labourer (b) Entrepreneur (c) Organizer (d) Middleman
- (24) Goods in stock are considered as:  
 (a) Capital (b) Land (c) Labour (d) Organization
- (25) The reward or entrepreneur is called as:  
 (a) Wage (b) Profit (c) Interest (d) Rent
- (26) The factor which organizes all other factors of production is called:  
 (a) Land (b) Labour (c) Entrepreneur (d) Capital
- (27) Entrepreneur and organizer both are related to:  
 (a) Capital (b) Rent (c) Organization (d) Land
- (28) The remuneration which is given to the land for its fertility and characteristics is called:  
 (a) Profit (b) Interest (c) Net Rent (d) Gross Rent
- (29) It is the result of collective efforts of land, labour, capital and organization:  
 (a) Production of wealth (b) Distribution of wealth (c) Consumption of wealth (d) Accumulation of wealth
- (30) It helps in earning income and also in the production of goods in factories:  
 (a) Capital (b) Profit (c) Organizer (d) Entrepreneur
- (31) The payment of the remunerations to all factors of production is called:  
 (a) Production (b) Accumulation (c) Consumption (d) Distribution
- (32) The rent is not applied on:  
 (a) Fertile Land (b) Barren Land (c) Cultivated Land (d) Marginal Land
- (33) It is commonly borrowed for the production of wealth:  
 (a) Land (b) Capital (c) Labour (d) Organization
- (34) Rent of Land, Wages of Labour, interest for capital, accidental profit and monopoly profit are included in:  
 (a) Net Profit (b) Gross Profit (c) Net Rent (d) Gross Rent
- (35) He is responsible for the profit and loss in business:  
 (a) Organizer (b) Investor (c) Entrepreneur (d) Labourer





## CHAPTER 9

## MONEY

## IMPORTANT SHORT QUESTIONS &amp; ANSWERS

**Q.1** Define Money. Describe the kinds of Money.

**Ans:(i) Money**

A means of exchange that is generally accepted freely in sale and purchase of goods or in the payment of debts is called Money. It helps man as the medium of exchange in business obligations and the payment of debts.

**Kinds of Money**

Important kinds of money are following.

**(i) Metallic Money or Coins**

The government issues the coins that are made of metals of different type having different values. These coins have specific designs and dully stamped. The government of Pakistan has issued one, two and five rupees coins which are used in the market for the payment and nobody deny them to accept.

**(ii) Paper Money**

Paper money which is generally called as "Notes". This paper money consists of currency issued by the government or by the central bank of the country. One rupee and two rupees coins are issued by the government and the five rupee coin, notes of rupee 10, 20, 50, 100, 500, 1000 and 5000 are issued by the central bank or by the State Bank of Pakistan. These notes have different size, colour and designs in accordance with their values. All these notes can easily be recognized by their values. Everyone can recognize them with their value, even an illiterate person can also recognize them. These notes are the medium of exchange and they have legal production, so anyone does not deny them to accept because the citizens have trust on the government and the Central Bank.

**(iii) Credit Money**

The written documents or verbal agreements which are used as a medium to obtain cash amount according to their nature and form of agreement are called as Credit Money. Cheque, Promissory Note, Bank drafts and Bill of Exchange are included in Credit Money. Though these credit instruments like cheque, draft, promissory note and bill of exchange are not in the form of cash but the payee has trust on the drawer of these credit instruments that he can easily draw the cash amount by using them, so these kinds of instruments are called as Credit Money. Now-a-days mostly payments are done in business and trade through these credit instruments and the parties are mostly satisfied with the use of Credit Money.

**Q.2** Define the following terms:

(i) Money

(ii) Credit Money

(iii) Value of Money

**Ans:(i) Money**

A means or medium of exchange that is generally accepted freely in sale and purchase of goods or in the payment of debts is called Money. It helps man as the medium of exchange in business obligations and the payment of debts.

**(ii) Credit Money**

The written documents or verbal agreement which are used as a medium to obtain cash amount to their nature and form of agreement are called as Credit Money. Cheque, Bank Draft,



Promissory Note and Bill of Exchange are included in Credit Money.

### (iii) Value of Money

The purchasing power of money is called as the Value of Money. It expresses the relationship between a unit of money and the goods and services which can be purchased with it. When the price rises, the value of money falls but when the price falls, the value of money rises. The situation in which the supply of money rises and prices of goods and services increased is called Inflation. In the situation when the supply of money falls and the prices of goods and services are decreased is called Deflation.

**Q.3 Define Money in the words of Professor Crowther.**

**Ans: Money**

Commonly all metallic coins and currency notes which are paid or accepted freely as the prices of goods and services and also used for the payment of debts and moves from hand to another without any obstacle are called as Money. Professor Crowther has given the best definition of money. He states:

"Money is anything that is generally acceptable as a medium of exchange and at the sometimes performs the function to measure and to store the value."  
(Professor Crowther)

**Q.4 Define Money. State the characteristics of Money.**

**Ans: Money**

A medium or means that is generally accepted freely in sale and purchase of goods and services or in the payment of debts is called Money. It helps man as the medium of exchange in business obligations and the payment of debts.

### The Characteristics of Money

The characteristics of Money can be described as following.

#### (i) General Acceptability

It is an essential characteristics of money. It means that money should be acceptable to everyone without any hesitation in exchange of goods and services. It means there is no obstacle in sale and purchase through money. The materials used as money like gold and silver are considered valuable metals because of their intrinsic value. As compared to them paper money has general acceptability because of the legal support of the government or central bank of the country.

#### (ii) Measure of Value

Money is the value measuring instrument, so it is necessary to the value of money itself to be stable. It is also an essential characteristics of money. As money serves as a unit to measure the value of other goods and services, so it should be fairly stable in value.

#### (iii) Durability

A thing that is used as money should be durable. It should not be perishable and be able to retain its value for a long time. It should be able to store.

#### (iv) Divisibility

Divisibility is another quality of money. It means that the thing which is used as money divided into small parts there should be no difference in its total value.

#### (v) Recognizability

It is the characteristics of money that its different units can easily be recognized with their values. Because of this characteristics, people can easily recognize the various forms of currency.

**Q.5 Write down five difficulties of Barter System.**

**Ans: Barter System**

A system in which commodity is exchanged with commodity is called Barter System.



## The Difficulties of Barter System

- Five difficulties of Barter System can be described as following.
- The Barter System had lack of double coincidence. It was a great difficulty causing inconvenience to the people.
  - Another big difficulty in Barter System was lack of common measure of value. Intensity of Want was the major measure of value therefore the most needy person had to offer his good at a lowest value.
  - The Barter System had also a difficulty of lack of divisibility. Most of the things have lost their value after division, so such things were difficult to exchange.
  - Lack of Store value was another main difficulty of Barter System. Particularly the goods that could not be stored for a long time were difficult to exchange under Barter System with their actual value after storing.
  - Difficulty of differed payments was another problem under Barter System. Because with lapse of time, the degree of intensity of wants as well as the value of goods are subjected to undergo changes and causing loses to lenders.

**Q.6** Define Cheque and draw a specimen of cheque.

**Ans:** Cheque

A kind of printed paper which is issued by the bank to its account holder for dealing money is called Cheque. It is an unconditional order in writing drawn on specified bank, signed by drawer, directing the bank to pay him on demand a certain sum of money or to a certain person.

### Specimens of the Cheque

CHEQUE NO. 497896		BRANCH CODE 0213		CHEQUE NO. 497896
Date: 7-9-2015		Date: 7-9-2015		
To: Gulnaz Fatima		A/C No. 11-24-3798-0		
For: Cash Payment		OR BEARER		
PAY <u>Gulnaz Fatima</u>		Rs. <u>25,600/-</u>		
RUPEES <u>Twenty - Five Thousand and Six Hundred (Only)</u>		Signature <u>Gulnaz</u>		
Do not write below this line.		*68458411*O ± 40 ± 3 2 1 : O ± ±38349   **OO		
	Rupees	PS		
Balance	25,600/-	—		
Deposit				
Total	25,600/-	—		



**Q.7** Define Bank Draft and draw a specimen of Bank Draft.

**Ans:** Bank Draft

A credit instrument which is issued in the form of an order by one branch of a bank to pay a certain amount of money to a certain person whose name is mentioned on it called Bank Draft. It is an instrument in writing drawn by one bank upon another bank or by one branch of a bank upon another branch for a certain sum of money payable on demand or to the order of payee there in. Any person can obtain a bank draft after paying the bank charges whether he is an account holder or not.



**Specimen of the Bank Draft**

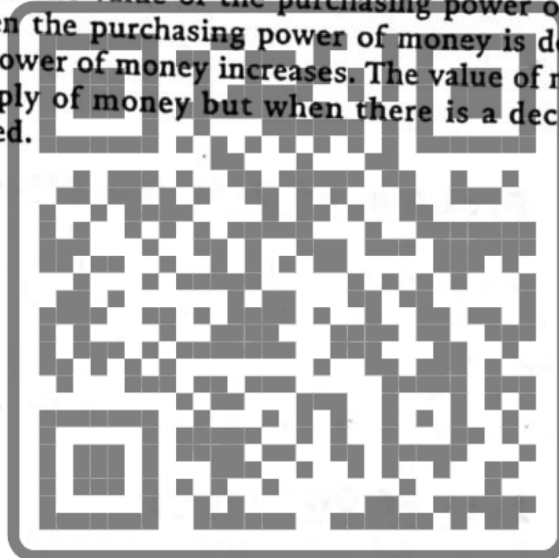
	 <b>MAHROSH COMMERCIAL BANK LIMITED</b> Shahrah-e-Quaideen Branch - Karachi	DRAFT NO: <b>CQR - 289685</b>
		Date: <b>25-10-2015</b>
	On Demand Pay to <u>Gulnaz Fatima</u>	Or Order
	RUPEES <u>Sixty Five Thousand (Only)</u>	Value received
	To the Manager _____ <b>MAHROSH COMMERCIAL BANK LIMITED</b>	Signature <u>Gulnaz</u> <b>MAHROSH BANK LIMITED</b>

**Q.8** What do you mean by Purchasing Power of Money?

**Ans:** Purchasing Power of Money

The value of money is considered as its Purchasing Power. It is equal to the quantity of goods and services that a unit money can purchase. The value of the purchasing power of money varies from time to time. If the price increases then the purchasing power of money is decreased but when the price decreases then the purchasing power of money increases. The value of money is also decreased because of an increase in the supply of money but when there is a decrease in supply of money then the value of money is increased.

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## **IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS**

**Q.1** Define Barter System and explain the difficulties of Barter System.

**Ans:** **Barter System**

In the early stages of Economic life, the human wants were very limited and there was no use of money. Free goods were found in a large quantity because different people adopted different professions. Some people associated with agricultural, some started to weave the clothes, some started to make earthenware while the other worked as labourers. Thus every man used to produce necessary goods for himself. After a long time, man began to produce surplus goods, so he started to exchange goods for goods in order to satisfy his wants, thus a system of exchange goods with goods is developed. Thus a system of exchanging goods.

### **The Difficulties of Barter System**

The difficulties which were present in the Barter System can be described as following.

**(i)** **Lack of Double Coincidence of Wants**

The great difficulty in Barter System was that it had very short circumstances of double coincidence of wants. If a person wanted to exchange his cloth with sugar then he had to find out such a person who possessed sugar. If he found out such person who wanted to exchange his sugar but he did not require cloth but he wanted rice for the exchange, then it was necessary to search another person who wanted to exchange rice with cloth, thus a direct exchange of goods between two persons was not possible and too much time was required to solve the problem of exchanging goods.

**(ii)** **Problem of Determination of Standard Value**

Whenever two persons involved in exchange of their goods under Barter System, there was always a problem of the determination of the standard value of their goods arisen. It was because they had nothing to measure the values of their goods to be exchanged with each other. For example it was difficult to measure how much quantity of sugar would be exchanged with ten kilograms of wheat or how much quantity of flour would be given in exchange of one sack of rice. This was a problem be solved and if the parties were not agree to decide then the exchange of goods was not possible.

**(iii)** **Lack of Divisibility**

Some goods are unable to sub-divide, if the goods are sub-divided into parts, they lose their value. Under Barter System, the exchange of the goods which lack of divisibility was not possible. For example cereals and other eatables like wheat, rice, sugar, pulses etc. can be sub-divided into small or large parts but the value of commodities like animals, bed, table or a bull cart is eliminated if they are sub-divided into parts. If a person wanted to exchange his bull cart with sugar, rice or flour then many difficulties were present in that kind of exchange.

**(iv)** **Lack of Store Value**

Money can be preserved as savings in present age and it can be used after storing for a long period and there is no risk of economic loss in it. But in early ages goods were preserved by man as his savings and these goods were considered as his wealth under Barter System. Many of goods like cereals cannot be stored for a long period, thus under Barter System it was impossible to store the value of goods.

**(v)** **Difficulty in Deferred Payments**

It was difficult to make credit transactions under Barter System. It was impossible to land goods because if a commodity was lent at the time of scarcity but the payment was done at the time of its availability in abundance then the creditor could not be able to get the same value as he had received first. For example if a certain quantity of wheat was given on credit one month before the cultivation at the time of its scarcity but the payment was done at the time of its cultivation, then certainly the borrower would get more benefits compared to that of the creditor.



## **Evolution of Money**

People faced a great deal of difficulties under Barter System with the increase of their wants. Thus man started to discover an instrument for exchange in order to make a permanent solution to overcome the difficulties of Barter System. He used animal skins, stones, shells, cattle etc. as the instruments for exchange but all these things were not proved to be durable and the difficulties were remained as same as were faced under Barter System. Human efforts were remained continue and precious metals like gold, silver were then started to use as the instruments for exchange. Thus man came out from the use of Barter System and started to use the precious metals as money. The use of these metals helped man to overcome the difficulties of Barter System. At last paper money then credit money were approved to use as the medium of exchange.

### **Q.2 Define Money and describe the important functions of Money.**

**Ans: Money**

A medium or means of exchange that is generally accepted freely in sale and purchase of goods or in the payment of debts is called Money. It helps man as the medium of exchange in business obligations and the payment of debts.

### **The Functions of Money**

Important functions of money are following.

#### **(i) Medium of Exchange**

Money is an important means of sale and purchase of goods and services. It is the fundamental and essential function of money. Man can buy the goods and services in accordance with his will due to exchange of money. Money can freely be used to purchase and sale of small to large items. The process of selling and purchasing of goods and services can freely be done anywhere on behalf of utilizing money. Wages are also paid in the form of money.

#### **(ii) Standard Value**

It is the important function of money that the value of all goods or services can be measured because of money. Infact money serves as a standard unit of value by which the value of different goods and services can be measured or compared. For example if a house costs rupees 12 lacs while another house costs 50 lacs then it may be concluded immediately after determining the cost that the value of the house with 50 lacs cost is far more better than the house cost 12 lacs. Thus money helps in the determination of price and value of things separately.

#### **(iii) Store of Value**

Money acts as a store value and it is also an important function of money. Under Barter System it was not possible to store things for a longer period. Money has solved this problem, now the stock can be used in future because of storing the value.

#### **(iv) Standard of Deferred Payments**

The value of money is more stable than other instruments of exchange, so the money lender and money borrower both remain satisfied because there is no risk of the change in the value of money. Thus money helps in credit transactions because of its function. Goods and services are bought and sold on the promise to pay money on a certain date in future. For example if a person borrows Rs. 10,000/- for one month promise then he will pay the same amount of Rs. 10,000/- at certain time without any misunderstanding.

#### **(v) Transfer of Value**

Money also acts as transfer of value. The value, amount or wealth can be transferred from one person to another person and from one place to another very easily because of money. The value can be transferred from one place to another. The transfer of value is done in the form of currency notes or credit instruments.



**Q.3** What do you understand by the value of Money. Explain in detail.

**Ans:** Value of Money

The quantity of goods or services which can be bought by using one unit of money is called as the value of money. It is the power of money through which it is exchanged with goods and services, so the purchasing power of money express the value of money.

**Explanation**

The purchasing power of money is actually considered as the value of money. It always keeps on changing. For example if one and half kilogrammes of grams can be bought in exchange of Rs. 150 then it means the value of Rs. 150 is equal to one and half kilogrammes of grams. But if two kilogrammes of grams are available at Rs. 150 then it is said that the value of money has been increased. When only one kilogramme of grams can be bought in exchange of Rs. 150 then it is cleared that now the value of Rs. 150 has become equal to only one kilogramme of grams, it means that the value of money has been decreased. It is the common observation from the past that there is always a trend of increasing the prices of commodities, when prices rise continuously then it proves that the value of money or its purchasing power is also decreasing continuously.

As the rise or fall in the prices of commodities results the change in their demand and supply. Similarly, the demand and supply of money produces a direct influence on its purchasing power. The demand of money means the quantity of money which is required for transactions and for satisfying daily wants. The supply of money means the quantity of all coins, currency notes and credit money which is issued by the government or the Central Bank of the country. It should also be remembered here that a coin or note passes through many hands during its circulation. For example a note of Rs. 100/- moves from person to second person, then from second to third, then third to fourth and finally moves from the fourth person to fifth person. This process of circulation shows that the total supply of money in this case is equal to Rs. 500/- instead of Rs. 100/- because five different persons use this currency note in satisfying their wants. If the quantity supplied of consuming goods is as usual but the quantity of money in circulation is more than the value of the money will decrease. On the contrary, if the quantity of money in circulation is less under the same conditions then the value of money will increase. It is concluded from all above discussion that if there is no change in the supply of the consumers goods and the supply of money is increased then the purchasing power of money will be decreased with the increased of the prices of goods. Similarly if the supply of the consumers goods remains as same and the supply of money is decreased then the purchasing power of money will be increased with the decrease in the prices of goods. It is necessary for an stable economy of a country that the circulation and supply remains at a certain level with the trend of increasing the supply of consumers goods.





## IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)

- Q.1 Choose the correct answer for each of the following from the given options:
- (1) Every currency note bears this statement:  
 (a) The bearer will be paid on demand (b) The bearer will not be paid on demand  
 (c) It is the possession of the bearer (d) All of these are not correct
  - (2) In Economics, commodity exchanged by commodity is called:  
 (a) Islamic System (b) Barter System (c) Foreign Trade (d) None of these
  - (3) The definition of Money has been given by:  
 (a) Professor Marshall (b) Professor Robbins  
 (c) David Ricardo (d) Professor Crowther
  - (4) Money performs the functions as:  
 (a) Medium of exchange (b) Store of value  
 (c) Standard of Deferred payments (d) All of these
  - (5) The value of money means:  
 (a) Increasing power of money (b) Decreasing power of money  
 (c) Purchasing power of money (d) None of these
  - (6) Money has removed the difficulty of:  
 (a) Double coincidence (b) Store of value  
 (c) Transfer of wealth (d) All of these
  - (7) Credit control can be maintained by:  
 (a) Fiscal Policy (b) Monetary Policy (c) Price Control (d) Commercial Policy
  - (8) The National Bank of Pakistan was founded in the year A.D.:  
 (a) 1947 (b) 1948 (c) 1949 (d) 1951
  - (9) In present age, it is stored in the form of savings:  
 (a) Cereal (b) Sugar (c) Money (d) Rice
  - (10) Coins, paper money and credit money are the kind of:  
 (a) Wealth (b) Capital (c) Stock (d) Money
  - (11) These are included in Metallic Money:  
 (a) Coins (b) Cheque (c) Notes (d) Draft
  - (12) Different kinds of currency notes having different values are called:  
 (a) Coins (b) Paper money (c) Credit money (d) None of these
  - (13) The coin of rupee one is issued by:  
 (a) Commercial Bank (b) Central Bank  
 (c) Government (d) Ministry of Finance
  - (14) Cheque, Bank Draft, Bill of Exchange etc. are considered as:  
 (a) Metallic Money (b) Credit Money (c) Paper money (d) None of these
  - (15) Money acts as a common measure of:  
 (a) Price (b) Value (c) Purchasing Power (d) Stock
  - (16) This kind of money does not enjoy the status of legal tender money yet it is accepted as a medium of exchange on account of confidence in the issuance authority:  
 (a) Coins (b) Metallic Money (c) Paper Money (d) Credit Money
  - (17) Gold and silver are used as money because of their:  
 (a) Colour (b) Durability (c) Intrinsic value (d) Strength
  - (18) Paper money has a characteristics of general acceptability because of its:  
 (a) Colour (b) Size (c) Value (d) Legal tender
  - (19) The value of all goods and services is measured in terms of:  
 (a) Money (b) Stock (c) Supply (d) Demand
  - (20) It is the most important function of money:  
 (a) Medium of Exchange (b) Standard of Value  
 (c) Store of Value (d) Standard of Deferred Payment



# CHAPTER 10

## BANKS AND BANKING

### IMPORTANT SHORT QUESTIONS & ANSWERS

**Q.1** What is a Bank. Give the various definitions of Bank as given by Economic experts.

**Ans:(i) Bank**

A financial institution which deals in money is called a Bank. It accepts deposits from its clients and makes loans and advances to them for productive and non-productive purposes in need. It deals in business from the deposits accepted from common public.

#### Definitions of Bank

Various definitions of Bank as given by economic experts are following.

- (i) Bank is such institution which receives deposits from public in the form of their surplus amount of money then advances loans to businessmen and traders and earn profit as interest.
- (ii) Banks deal in money and promote credit transactions because they advance loans.
- (iii) Bank advances a business of promoting loans for itself and for others. It is the business of a bank to receive loans from people then issue loans to other people for the creation of credit.

**Q.2** Define Bank and write down the names of different kinds of Banks.

**Ans: Bank**

A financial institution which deals in business of money after accepting deposits from its clients then issues loans for the development of trade and commerce is called Bank.

#### Kinds of Bank

The names of various kinds of Bank are following.

- |                       |                        |
|-----------------------|------------------------|
| (i) Central Bank      | (ii) Commercial Bank   |
| (iii) Industrial Bank | (iv) Agricultural Bank |
| (v) Saving Bank       | (vi) Co-operative Bank |
| (vii) Exchange Bank   |                        |

**Q.3** Write down any five functions of the Central Bank.

**Ans: Central Bank**

The bank in any country which is authorized by the government to develop the monetary system and to control the banking activities throughout the country is called Central Bank. It helps the government in order to improve the economic system of the country.

#### Functions of Central Bank

Important functions of Central Bank are following.

- (i) A central bank issues currency notes having different values. They also have different colour, designs and size. In Pakistan, Central Bank issues the notes of Rs. 5, Rs. 10, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1000 and Rs. 5000.
- (ii) A central bank performs all those services for the government which a commercial bank provides to its customers. It acts as the custodian of the government securities, provides loans to the government, arranges foreign exchange for the government and also provide advisory services to the government.



- (iii) Central bank also acts as a banker's bank. All commercial banks of a country follow the policy of central bank. It is the custodian of cash reserves of commercial banks and also acts as lender of last resort.
- (iv) Central bank takes steps for credit control in order to keep the stability in prices because the circulation of money produces direct effect on the prices.
- (v) Central bank acts as a financial advisor to the government because it helps the government to maintain financial stability in the country.

**Q.4 Define Commercial Bank. State any five functions of a commercial bank.**

**Ans: Commercial Bank**

A financial institution which accepts deposits from its clients and makes loans and advances them to businessmen and traders and earns interest on it is called Commercial Bank.

### **Functions of Commercial Bank**

Important function of a commercial bank are following.

- (i) A commercial bank receives deposits from public and puts them into various accounts like current account, saving account, fixed account and profit and loss sharing account.
- (ii) Commercial banks advance short term loans, medium term loans and long term loans. These loans are normally issued against securities. A short period financing facility is also provided by commercial banks in the form of overdraft. They also provide by discounting of bill of exchange.
- (iii) Commercial banks also perform the function of transferring the funds from one place to another by charging nominal commission.
- (iv) Commercial banks also provide lockers for their customers. They provide safe custody to the valuables of the customers.
- (v) Commercial bank issues various kinds of credit instruments like travellers cheque, bank drafts, cheques and bills of exchange.

**Q.5 Write a short note on State Bank of Pakistan.**

**Ans: State Bank of Pakistan**

State Bank of Pakistan is the Central Bank of Pakistan. The Governor General of Pakistan Quaid-e-Azam Muhammad Ali Jinnah issued an order for the establishment of the State Bank of Pakistan on May, 12 1948. Quaid-e-Azam Muhammad Ali Jinnah placed the stone of the establishment of the State Bank of Pakistan on July 1, 1948. According to State Bank Order 1948, the bank entrusted with the duty of regulating the issue of bank notes and keeping the reserves with a view to seek monetary stability in Pakistan and generally to cooperate the currency and credit system in the country. This order of 1948 has been substituted by the State Bank of Pakistan Act 1956. State Bank of Pakistan performs all those functions which a central bank performs.

The power to supervise and control the functions of the bank is vested with a central board of directors. The central board of directors consists of a governor and one or more deputy governors. The chief executive of the bank is governor. He is responsible for controlling the affairs of the bank on behalf of the government for a term of maximum duration of five years. The head office of the State Bank of Pakistan is situated at Karachi. There are many other branches have been established in big cities of Pakistan. National Bank of Pakistan represent the State Bank of Pakistan in those areas where the branches of the State Bank of Pakistan have not been established.

**Q.6 Describe briefly about three main Departments of the State Bank of Pakistan.**

**Ans: The Departments of the State Bank of Pakistan**

Three main departments of the State Bank of Pakistan are following.



**(i) Department of Note-Issue**

This department of the State Bank of Pakistan issues currency notes. It maintains the reserve in gold, silver and foreign exchange equals to 30% value of the issued currency notes.

**(ii) Department of Banking**

This department of the State Bank of Pakistan has a responsibility to supervise all schedule banks and provide them guidance for the implementation of monetary policies.

**(iii) Department of Exchange Control**

This department of the State Bank of Pakistan manages to obtain and to distribute foreign exchange.

**Q.7 Name any five famous commercial banks of Pakistan.**

**Ans: Commercial Banks of Pakistan**

Previously all the commercial banks in Pakistan were owned by Private Sector but on January 1, 1974 all commercial banks were nationalized. Now some commercial banks in Pakistan are performing their functions under the supervision of the government but mostly commercial banks are functioning in private sector. The commercial banks of Pakistan play a very significant role in the stability of the economy of the country. The functions of all these commercial banks are as common as general commercial banks perform.

The names of famous commercial banks of Pakistan are following.

- |                               |                              |
|-------------------------------|------------------------------|
| (i) National Bank of Pakistan | (ii) Habib Bank Limited      |
| (iii) United Bank Limited     | (iv) Allied Bank of Pakistan |
| (v) Muslim Commercial Bank    |                              |

**Q.8 Write down any five differences between a Central Bank and a Commercial Bank.**

**Ans: Difference between Central Bank and Commercial Bank**

CENTRAL BANK	COMMERCIAL BANK
(1) Central bank is government's bank. It has an authority of issuing currency notes.	(1) Commercial bank is a public bank. It deals business with common public.
(2) Central bank supervises the financial affairs and monetary system of the government.	(2) Commercial bank receives deposits from private firms and common people and provides them loans.
(3) Profit earning is not a purpose of central bank. Its aim is to stabilize the economy of the country.	(3) Profit earning is the basic aim of commercial bank. It provides loans on interest.
(4) Central bank takes steps for credit control for the stability of prices.	(4) Commercial banks do not work for the credit control but they only assist central bank in this respect.
(5) Central bank draws all policies related to banking by itself. It acts as advisor to the government for solving financial and fiscal problems.	(5) Commercial banks follow the policies framed out by the central bank. These banks assist central bank in the enforcement of its policies.

**Q.9 Explain the following or write notes on following.**

- |                     |                     |
|---------------------|---------------------|
| (i) Current Account | (ii) Saving Account |
| (iii) Fixed Account |                     |

**Ans: (i) Current Account**

The account in which there is no restriction of depositing and withdrawals of the cash amounts during the public dealing hours of the bank is called Current Account. This account has been introduced in commercial banks for businessmen, firms, industrial institutions and other



public or private organizations. No profit is paid on this account and bank takes its service charges to operate this account, so the account holder pays interest to bank at a low rate.

**(ii) Saving Account**

The account on which the bank pays interest on a high rate as compared to the current account is called Saving Account. The account holder can withdraw the money according to need. Usually people withdraw less amount than their deposited amount.

**(iii) Fixed Account**

The account in which the surplus money is deposited for a specific period of time is called Fixed Amount. High rate of interest is paid by the bank on such deposits because the money is get fixed with the bank for a longer period and the amount deposited in this kind of account can be used to finance long term projects by the bank. The deposited amount can be drawn from this account after maturity date but the account holder can receive a loan against the fixed deposit. This account is beneficial for those who want to save a huge amount.

**Q.10 Explain the following or write notes on following:**

- (i) **Profit and Loss Sharing Account**
- (ii) **Overdraft**
- (iii) **Bill of Exchange**

**Ans: (i) Profit and Loss Sharing Account**

The account which is specially offered by the commercial banks to collect scattered and small savings of common people and it provides the investment facility for common people is called Profit and Loss Sharing Account. It is represented by PLS-Saving Account. In this kind of account bank and the account holder both share in profit and loss. This account was introduced in Pakistan on January 01, 1981. Previously this account was named as "Saving Account" and bank only paid the interest on this account. If the bank earns the profit in its business, then the profit is also paid to the account holder in accordance with his deposited amount. In case of loss in bank's business the account holder also bears the loss.

**(ii) Overdraft**

The facility which is provided by a commercial bank to his account holder that they can withdraw a limited account in excess of their original balance is called Overdraft. This facility is provided on current account only. The bank examines the record of dealing of the account holder before granting the overdraft. Overdraft is short term finance and the interest is charged by the bank on the amount overdrawn. Overdraft helps the account holder for the extension of his business, thus he also gets an opportunity of earning more profit.

**(iii) Bill of Exchange**

The document which is used by the businessmen, traders, bankers, industrialists and other people for the settlement of business transactions and is used as unconditional order in writing and contains the acceptance of debtor for the payment of certain amount to the creditor at fixed future time generally three months after date is called Bill of Exchange. It is an agreement between the traders which is converted into cash amount after three months. This bill is returned to the creditor after the acceptance that asks for payment at maturity by presenting it to the debtor. When one businessman makes his payment to another businessman in the form of bill of exchange but he needs immediate cash then that businessman presents this bill of exchange to a commercial bank and the commercial bank cuts its commission and pays the amount of the bill of exchange before its maturity. This process is called Discounting of Bill of Exchange. Bill of Exchange is also a kind of short term finance.



**Q.11** Write points of differences between Scheduled Banks and Non-Scheduled Banks.

**Ans:** **Difference between Scheduled and Non-Scheduled Banks**

SCHEDULED BANKS	NON-SCHEDULED BANKS
(1) The banks which are registered under the State Bank Act - 1956 are called Scheduled Banks.	(1) The banks which are not registered under State Bank Act - 1956 are called Non-Scheduled Banks.
(2) Central bank provides clearing house facility to scheduled banks.	(2) Central bank does not provide clearing house facility to non-scheduled banks.
(3) The central bank provides the facilities to scheduled banks for the transfer of money.	(3) The central bank does not provide the facility of transfer the money for non-scheduled banks.
(4) Scheduled banks can take loans from the central bank at the time of financial crisis.	(4) Non-scheduled banks cannot take loans from the central bank at the time of financial crisis.
(5) The paid-up capital of scheduled banks is fixed.	(5) The paid up capital of non-scheduled banks is not fixed.

**Q.12** Write down important functions of the State Bank of Pakistan.

**Ans:** **The State Bank of Pakistan**

The Central Bank of Pakistan which makes the policies for the maintenance of the monetary system of Pakistan and supervises the banking system is called the State Bank of Pakistan.

### **The Functions of the State Bank of Pakistan**

The important functions of the State Bank of Pakistan are following.

- (i) The State Bank of Pakistan has the sole right of issuing the currency notes except one rupees coin which is issued by the government.
- (ii) The State Bank of Pakistan forms and operates the monetary system and monetary policy of Pakistan.
- (iii) The State Bank of Pakistan uses open market operations techniques for the expansion and contraction of the money supply in the country.
- (iv) The State Bank of Pakistan has full powers to supervise and control the banking system of Pakistan.
- (v) The State Bank of Pakistan acts as a custodian of foreign language reserves, manages exchange control and the external value of the currency. It also acts as an advisor to the government of Pakistan in all financial matters.





**IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS**

**Q.1** Define Bank. Describe briefly about different kinds of Bank.

**Ans:** **Bank**

A financial institution which deals in business of money after accepting deposits from its clients then issues loans for the development of trade and commerce is called Bank.

**Kinds of Bank**

Important kinds of Bank are following.

**(i) Central Bank**

Every country has its own central bank. The central bank of Pakistan is the State Bank of Pakistan. It helps the government for the betterment of economic system. It has no objective of profit earning but operates the monetary system and fiscal policies.

**(ii) Commercial Bank**

A bank which receives deposits from public from their surplus amount of money and collects them in various kinds of accounts then issues loans for earning profit is called Commercial Bank. In our country Habib Bank Limited, United Bank Limited, Muslim Commercial Bank, Allied Bank of Pakistan are all included in commercial banks. Common people take benefits from the services of these banks.

**(iii) Industrial Bank**

A bank which provides help in the development of industrial sector is called as Industrial Bank. Pakistan is a progressing country and the industries in Pakistan are needed to be flourished in better ways, so industrial banks have been established in Pakistan for the development of industries. These banks issue long-term finance for the development of industries. Industrial Development Bank of Pakistan (I.D.B.P.), Pakistan Industrial Credit and Investment Corporation (PICIC), National Investment Corporation (N.I.T.) are the examples of industrial banks in Pakistan.

**(iv) Agricultural Bank**

A bank which is related for the development of agricultural sector is called as Agricultural Bank. The government of Pakistan has establishment agricultural banks for the development of agriculture, the branches of these banks have been extended throughout the country. These banks provide loans to the farmers on easy terms and conditions. The farmers use the money obtained through loans for buying good quality seeds, chemical fertilizers, machines, pesticides etc. Agricultural Development Bank of Pakistan (ADBP) is associated to the development of agriculture in Pakistan.

**(v) Saving Bank**

A bank which encourages and collects the scattered savings of common people is called as Saving Bank. These kind of banks help people to make small savings. Besides banks, post offices also provide this service. The government of Pakistan has also established "National Saving Centres" in order to create the habit of saving among people. These centres issue saving certificates and other schemes from time to time.

**(vi) Co-operative Bank**

A bank which is set up to provide credit facilities to small farmers and industrialists in order to raise their income level is called Co-operative Bank. These banks are formed under co-operative societies Act 1925. The main objectives of these banks is to provide loans to farmers for the development of agriculture. Besides this the members of co-operative society also get benefits from these banks because they provide credit facilities to their members. The formation of co-operative societies and co-operative banks is associated to the rural development and the development of agricultural output. Provincial Cooperative Bank of Sindh is the example of Co-operative Bank.





**(vii) Exchange Bank**

A bank which provides foreign exchange to importers and exporters to a country is called Exchange Bank. Foreign currency is required for international trade which is provided by these banks. They help in the conversion of local currency into foreign currency. They also issue traveller's cheques and bank drafts. Western Union Bank and Bank of Tokyo are examples of these banks.

**(viii) Mortgage Bank**

A bank which provides loans to people against their movable or immovable property is called Mortgage Bank. These bank pledge or mortgage movable property in the form of gold, silver and financial documents and immovable property like house, shop and land.

**Q.2 Define Bank. Give its kinds and describe the functions of a Central Bank. What role do banks play in the economic development? Also explain the main functions of a Central Bank.**

**Ans: Bank**

A financial institution which deals in money which accepts deposits from common people then issues loans for the development of trade.

**Kinds of Bank**

Important kinds of bank are following.

- |                       |                        |
|-----------------------|------------------------|
| (i) Central Bank      | (ii) Commercial Bank   |
| (iii) Industrial Bank | (iv) Agriculture Bank  |
| (v) Saving Bank       | (vi) Co-operative Bank |
| (vii) Exchange Bank   | (viii) Mortgage Bank   |

**The Role of Banks in the Economic Development of a Country**

The role of banks in the economic development of a country can be described as following.

- (i) The central bank of a country gives help to the government in making stability in the economic system, monetary and fiscal policies of the country.
- (ii) All commercial banks receive deposits from general public and issue loans on the basis of earning the profit. These loans help in the development and expansion of trade and business.
- (iii) Agricultural banks issue loans for the cultivators and farmers for the development of agriculture.
- (iv) Saving banks receive deposits of small amount of saving. They work to make people habitual of saving. They also issue saving certificates.
- (v) Exchange banks deal in foreign exchange and currency and helps in promoting foreign trade. Foreign currency is required for foreign trade and these banks provide foreign currency.

Thus banks promote capital formation which bring economic development and prosperity in a country. Banks encourage saving and investment. Banks also play an important role in the expansion of credit money. They promote industries, trade and business by issuing loans. Thus banks are responsible for the development of money market and capital market in a country which finally brings balance in the economy.

**The Functions of a Central Bank**

The functions of a Central Bank can be described as following.

**(i) The Issuance of Currency Notes**

The central bank has an authority to issue currency notes. It issues the notes of different values in different colours and designs. In Pakistan the currency notes of Rs. 10, Rs. 20, Rs. 50, Rs. 100, Rs. 500, Rs. 1000 and Rs. 5000 are issued by Central Bank.





**(ii) Government's Bank**

The central bank performs all those services to the government which commercial banks provide to their customers. To protect the securities of the government, to provide foreign currency to government and to issue loans are the duties of Central Bank.

**(iii) Banker's Bank**

All the commercial banks of the country follow the monetary policy of the Central Bank. It is the lender of last resort to the commercial banks. It keeps the cash reserves of the commercial banks as a custodian and finally it acts as a clearing house in settlement and transfer.

**(iv) Control on the Circulation of Money and Prices**

A Central Bank acts as a guardian of money market and keeps the prices on level because the circulation of money produces its effects on prices.

**(v) Financial Advisory Services**

The Central Bank provides advisory services to the government on financial affairs. It gives advice to the government on financial affairs.

**Q.3 Define Commercial Bank and describe the functions of commercial banks in detail.**

**Ans: Commercial Bank**

A bank which receives deposits from public from their surplus amount of money and collects them in various kinds of accounts then issues loans for earning profit is called Commercial Bank.

**The Functions of Commercial Banks**

The functions of commercial banks are following.

**(1) Acceptance of Deposits**

Commercial banks receive deposits from common people and keep them into various kinds of accounts. The accounts in which people deposit their money are of following kinds.

- |                     |                                      |
|---------------------|--------------------------------------|
| (i) Current Account | (ii) Saving Account                  |
| (iii) Fixed Account | (iv) Profit and Loss Sharing Account |

**(2) Provision of Loans**

Provision of loans is the second important function of commercial banks. Commercial banks provide loans for commercial purpose on the basis of long and short terms. The rate of interest is low on short term loans while the rate of interest is high on long term loans. These loans are provided on the basis of some legal terms and conditions. These loans can be recovered as lump sum or installment according to the desire of the borrowers. Commercial banks advance loans in following forms.

- |                               |  |
|-------------------------------|--|
| (i) By out draft              | (ii) By discounting the Bill of Exchange |
| (iii) By opening loan account |  |

**(3) Public Utility Services**

Commercial banks provide following public utility services in order to provide various facilities to common people.

**(i) Transfer of Money**

Those traders who have their business in different areas of the country, commercial banks provide them the facility of transfer of money. The required amount of money can be received in the form of a draft through the branch of the bank located in that city. Commercial bank receives some commission for this process.

**(ii) Provision of Lockers**

Commercial banks also provide lockers to their account holders for the protection of their valuables, ornaments, jewellery and special documents. The key of the locker is kept by the



manager of the bank while the other is given to the account holder. The locker can be opened in need by using both the keys. Commercial bank receives some fee on the provision of locker.

(iv) **Provision of Exchange**

Commercial banks provide their account holders and common people the currency notes, cheques, drafts and bills of exchange. These credit instruments help in transferring huge amount of money from one place to another without risk. They give protection and make the business easy.

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## IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) This bank deals in foreign currencies:  
 (a) Industrial Bank  
 (c) Exchange Bank  
 (b) Saving Bank  
 (d) Agriculture Bank
- (2) This department of the State Bank of Pakistan issues currency notes:  
 (a) Banking Department  
 (c) Exchange Department  
 (b) Currency Issuing Department  
 (d) None of these
- (3) The Central Bank of Pakistan is:  
 (a) National Bank (b) Habib Bank  
 (c) United Bank (d) None of these
- (4) Commercial banks receive the:  
 (a) Deposits (b) Prize Bonds  
 (c) Letters (d) None of these
- (5) The number of the kinds of money are:  
 (a) 2 (b) 3  
 (c) 4 (d) 5
- (6) The head of the State Bank of Pakistan is:  
 (a) Manager (b) Chancellor  
 (c) Director (d) Governor
- (7) Which one of the following is not a function of a Central Bank?  
 (a) Issuance of Currency  
 (b) Government's Banks  
 (c) Banker's Bank  
 (d) Accepts deposits from common people
- (8) Before the origin of banking these had a great influence on not only public but all big business institutions:  
 (a) Merchants (b) Money Lenders  
 (c) Black Smiths (d) Brokers
- (9) Bank keeps deposits of:  
 (a) Public (b) Bank  
 (c) Trader (d) Government
- (10) State Bank of Pakistan is:  
 (a) Commercial Bank of Pakistan  
 (b) Chartered Bank of Pakistan  
 (c) Central Bank of Pakistan  
 (d) Public Bank of Pakistan
- (11) Credit money includes:  
 (a) Cheque (b) Bill of Exchange  
 (c) Overdraft (d) All of these
- (12) Cashier's Cheque is a:  
 (a) Bank draft (b) Pay order  
 (c) Order Cheque (d) Bearer Cheque
- (13) The Bill of Exchange is originally accepted by:  
 (a) Seller (b) Buyer (c) Bank (d) Creditor
- (14) Lender of the last resort for commercial banks is:  
 (a) World Bank (b) Central Bank (c) Industrial bank (d) Mortgage Bank
- (15) The most common use of foreign payment is:  
 (a) Bank Draft (b) Postal Order (c) Bill of Exchange (d) Money Order
- (16) Commercial banks transfer the funds from:  
 (a) One place to another  
 (b) One branch to another branch  
 (c) One bank to another bank  
 (d) All of these
- (17) Credit Creation is the most important function of:  
 (a) Co-operative Bank  
 (b) Saving Bank  
 (c) Commercial Bank  
 (d) Central Bank
- (18) Fixed deposit account holder can withdraw his amount:  
 (a) At any time (b) After two years (c) On the expiry term (d) None of these
- (19) The Central Bank does it work for:  
 (a) Making profit  
 (b) The prosperity of country  
 (c) The betterment of commercial activities (d) The development of commerce





- Commercial Bank's fund is mainly comprised of money:
- (20) (a) Customer's deposits (b) Borrowed from Central Bank  
(c) Own capital (d) Bank's Profit
- A commercial bank acts as a custodian of customer's:
- (21) (a) Property (b) Valuables (c) Business (d) None of these
- Bank overdraft is allowed by bank for:
- (22) (a) A certain limit (b) A fixed limit (c) No limit (d) All of these
- Commercial bank fund comprises mainly of money borrowed from:
- (23) (a) Money lenders (b) Loans (c) Account holders (d) Other banks
- A commercial bank acts as the custodian of its customer's:
- (24) (a) Property (b) Valuable (c) Business (d) Cash
- This bank accepts deposits and advances loans:
- (25) (a) Co-operative Bank (b) Mortgage Bank  
(c) Commercial Bank (d) Central Bank
- The first commercial bank established in Pakistan was:
- (26) (a) Muslim Commercial Bank (b) Habib Bank Limited  
(c) National Bank of Pakistan (d) State Bank of Pakistan
- Price Stability can be achieved by adopting:
- (27) (a) Open market operation (b) Economic reforms  
(c) Credit control (d) Regulatory trade policy
- This is called Banker's bank:
- (28) (a) World Bank (b) Central Bank  
(c) Standard Chartered Bank (d) Sindh Bank
- Current Account is more suitable for:
- (29) (a) Capitalists (b) Salaried People (c) Labourers (d) Business Persons
- "Monopoly of Notes Issue" is a characteristics of:
- (30) (a) Industrial Bank (b) Commercial Bank (c) Exchange Bank (d) Central Bank
- The State Bank of Pakistan was inaugurated by:
- (31) (a) Quaid-e-Azam Muhammad Ali Jinnah (b) Liaquat Ali Khan  
(c) Abdul Rab Nishtar (d) Muhammad Ali Bogra
- The first ever regular bank in banking history is the:
- (32) (a) Bank of England (b) Bank of India (c) Bank of Venice (d) Bank of Barcelona
- In present age, a commercial bank deals in the business of issuing:
- (33) (a) Wealth (b) Capital (c) Stock (d) Loans
- This bank issues long term loans for the development of industries:
- (34) (a) Central Bank (b) Commercial Bank (c) Exchange Bank (d) Industrial Bank
- These banks are related to the development of agriculture:
- (35) (a) Saving Banks (b) Exchange Banks (c) Agricultural Banks (d) Industrial Banks
- These banks provide foreign currency in the development of foreign trade:
- (36) (a) Commercial Banks (b) Exchange Banks  
(c) Industrial Banks (d) Co-operative Banks
- These banks are established under the co-operative society Act:
- (37) (a) Agricultural Banks (b) Co-operative Banks  
(c) Industrial Banks (d) Commercial Banks
- This department of the State Bank of Pakistan supervise the commercial banks in the country:
- (38) (a) Currency Issuing Department (b) Banking Department  
(c) Exchange Department (d) None of these
- The State Bank of Pakistan was established in:
- (39) (a) 1st June, 1948 (b) 1st July, 1948  
(c) 1st August, 1948 (d) 1st November, 1948
- The head office of the State Bank of Pakistan is located at:
- (40) (a) Islamabad (b) Karachi (c) Lahore (d) Rawalpindi



## CHAPTER 11

## TRADE

## IMPORTANT SHORT QUESTIONS &amp; ANSWERS

**Q.1** Write down five advantages of Foreign Trade. (OR) Write down five advantages of International Trade.

**Ans:** Advantages of Foreign Trade

Five advantages of Foreign or International Trade are following.

- (i) Foreign trade enables a country to obtain such goods which cannot be produced within the country because of their highest cost of production.
- (ii) A country earns foreign exchange by exporting its surplus production which provides economic stability to the country.
- (iii) Foreign trade or International trade provides opportunities to the poor and under developed countries to make progress. The bilateral and cultural relations of the development of universal peace.
- (iv) Foreign or international trade provides help to keep the prices of such commodities which are produced within country on large scale to a certain level.
- (v) Foreign trade enables a country to be specialized in the production of goods in agricultural or industrial field. So the agricultural or industrial products are produced on large scale. This mass production because of foreign trade provides employment opportunities and also help in earning more foreign exchange.

**Q.2** Write down five disadvantages of Foreign Trade. (OR) Write down five disadvantages of International Trade.

**Ans:** Disadvantages of Foreign Trade

Five disadvantages of foreign or international trade are following.

- (i) Advanced countries, possessing more capital and high techniques produce better goods while under developed countries are unable to get advantages of some facilities. Thus foreign trade hamper their progress inversely.
- (ii) The political and economic stability encourages the foreign trade and international marketing. The countries involved are dependent to each other freely. When one of them faces serious crisis like war or political unrest, its economy is badly disturbed. It also affects the economy of many other countries. Thus foreign trade either disturbed badly or closed.
- (iii) The countries which are economically stabilized always try to get hold in the international markets due to which the mutual trade relations are badly affected.
- (iv) Sometimes a country exports the surplus goods in very large quantity in order to earn a lot of foreign exchange and the nation suffers deficiency of its own production.
- (v) Foreign or international trade also promotes the expansion of some harmful products which proved to be injurious to health and moral conduct.

**Q.3** Define Trade, Domestic Trade and Foreign Trade.

**Ans:** Trade

Buying and selling of goods and services among two or more persons in a society is called as Trade. The buyer satisfies his wants while the seller earns profit through this power.



**Domestic Trade**

The process of buying and selling of goods and services among the various regions of a country is called as Domestic Trade.

**Foreign Trade**

The process of buying and selling of goods and services among two or more countries of the world is called as Foreign or International Trade.

**Q.4** Why trade is necessary? Describe briefly.

**Ans:** **Need of Trade**

Buying and selling of goods and services which is called as Trade is necessary for the economic prosperity. All kinds of employment in the world are developed on the basis of trade. Natural resources play very significant role in the production. On the basis of natural resources it is a fact that natural resources differ in their kind, quantity and quality from place to place and region to region of a country. In the same way they also differ from country to country. Thus the production of different countries also differs in accordance to its quality and quantity. Each and every region of the world makes efforts for production at cheaper cost of production. If the people of other regions of the world try to make such production then certainly the cost of production will be high and the quantity of production will also remain low. For example cotton is produced in large quantity in Sindh and Punjab. If it is tried to produce in Khyber Pakhtunkhwa and Balochistan certainly its production will be less in quantity because of existing unfavourable conditions for its production there. People involve in trade in order to overcome the difficulties of production because of the differences of resources at various regions and the trade removes these differences and the goods and services are obtained easily through trade.

**Q.5** Define the following:

(i) **Capital Goods**

(ii) **Industrial Raw Material**

(iii) **Consumer Goods**

(iv) **Defence Goods**

**Ans:** (i) **Capital Goods**

Those goods which are used as capital are called as Capital Goods. Machinery, spare parts, machines used in factories, trucks, aeroplanes, railway engines etc. are included in capital goods.

(ii) **Industrial Raw Material**

Those products which are used in industries for the production of final goods are called as Industrial Raw Material. Mineral oil, iron, rubber and metals etc. are included in industrial raw material.

(iii) **Consumer Goods**

Those goods which are used commonly in daily life are called as Consumer Goods. Food items like cooking oil, dry milk, tea, coffee etc. and other like medicines, magazines, books etc. are included in consumer goods.

(iv) **Defence Goods**

Those products which are used for defence purposes are called as Defence Goods. Weapons, fighter planes, radar, tanks etc. are included in defence goods.

**Q.6** Write down the differences between Domestic Trade and Foreign Trade.

**Ans:** **Difference b/w Domestic Trade and Foreign Trade**

<b>DOMESTIC TRADE</b>	<b>FOREIGN TRADE</b>
(1) The process of buying and selling of goods and services which is done between various regions of a country is called as Domestic Trade.	(1) The process of buying and selling of goods and services between two or more countries is called as Foreign Trade.



(2) In domestic trade the mobility of labour and capital is easy. Capital and labour can be moved from one place to another without any differences on the basis of high rate of remuneration.	(2) In foreign trade the mobility of capital and labour is difficult because of religious and cultural differences. Besides this the problems of visa, passport and exchange are also produced in the mobility.
(3) In domestic trade all transactions are made in the currency of that country and the parties remain satisfied.	(3) In foreign trade, the payments and receipts are difficult because of the differences of the values of the currency of different countries.
(4) In domestic trade, no restrictions are applied and there is also no legal formalities in the mobility labourers and capital.	(4) In foreign trade there are many kinds of commercial restrictions and legal formalities are applied.
(5) In domestic trade uniform mercantile laws are enforced in various regions of the country and all traders follow the same laws. All traders also enjoy same kind of facilities.	(5) In foreign trade, different mercantile laws are to be followed in different countries. The terms and conditions are settled first before trade.

**Q.7 Define Imports and write down the major imports of Pakistan.**

**Ans: Imports**

The commodities, raw material or manufactured products which a country purchases from other countries are called Imports.

#### **Major Imports of Pakistan**

Major imports of Pakistan are following.

- (i) Capital goods like heavy machinery, spare parts, machine used in factories, equipments for transport, motor vehicles, trucks, railway engines and boggies, aeroplanes etc.
- (ii) Consumer goods like edible oil, dry milk, tea, coffee, stationary products, flour, paper, books, magazines etc.
- (iii) Industrial raw material like mineral oil, petroleum products, rubber products, chemicals, iron, metals etc.
- (iv) Defence products like weapons, fighter planes, war-ships, radar, tanks etc.

**Q.8 Define Exports and write down the names of major exports of Pakistan.**

**Ans: Exports**

The commodities, raw materials or manufactured products which are surplus from the actual requirements of a country and it sells them to other countries and gains foreign exchange are called Exports.

#### **Major Exports of Pakistan**

Major exports of Pakistan are following.

- |                      |                             |
|----------------------|-----------------------------|
| (i) Cotton           | (ii) Rice                   |
| (iii) Sports Goods   | (iv) Surgical Instruments   |
| (v) Skin and leather | (vi) Fish and Fish Products |
| (vii) Handicrafts    | (viii) Man Power            |





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** Define Trade. What do you understand by Foreign Trade? Describe the advantages and disadvantages of Foreign Trade.

**Ans:** Trade

The buying and selling of goods and services between two people in a society is called as Trade.

### Foreign Trade

The process of buying and selling of goods and services between two or more countries is called as Foreign Trade.

### Advantages of Foreign Trade

The advantages of foreign on international trade can be described as following.

**(i)** Achievement of Goods

It is the biggest advantage of foreign trade that it promotes the process of production throughout the world. It helps a country to obtain those goods which it does not produce itself or can produce with high cost of production. For example Pakistan imports heavy machinery, defence goods, life saving drugs etc. in accordance to their requirement.

**(ii)** Outlet of Over Production

Foreign trade enables a country to sell its surplus production. Foreign exchange is obtained through this process. This process also provides economic stability. If there is no foreign trade then the agricultural or industrial surplus production can be destroyed. Foreign trade also helps to obtain necessary goods from other countries through their surplus production.

**(iii)** Economic Prosperity

International or foreign trade gives opportunities to the poor and under developed countries of the world to achieve economic prosperity. It also helps in the development of bilateral cultural and economic relations which finally bring a state of universal peace.

**(iv)** Stability in Prices

International or foreign trade helps in keeping the prices of goods at a certain level. It increase the total production of different kinds of products thus it can lead a fall in the cost of production. Goods that are produced in large quantity, their surplus production is exported, thus the price level is maintained within a country. For example if cotton or cotton yarn is not exported then the price will fall down within the country upto such a limit that the cultivators of cotton would suffer a loss.

**(v)** Specialization in Production

Each and every country of the world achieve a status to be specialized in the production of particular goods in agricultural or industrial field. It produces such goods on large scale, thus the opportunities for employment are increased within the country. Most of the countries try to increase their exports in order to earn more foreign exchange. They also try to minimize the volume of their imports. In order to achieve this goal, they utilize fully their agricultural and industrial resources.

**(vi)** Efficient Use of Production

The biggest advantage of foreign trade is that it creates a very efficient and better use of all agricultural and industrial production of the world.

### Disadvantages of Foreign Trade

Some disadvantages of foreign or international trade can be described as following.



(i) **Obstacle to Development of Underdeveloped Countries**

Foreign trade is based upon competition. Advanced and developed countries possessing more capital and technical efficiency produce better goods while underdeveloped countries remain unable to compete them in the production because of the shortage of capital and technical efficiency. Thus foreign trade becomes an obstacle in the progress of underdeveloped countries.

(ii) **Dependence of Other Countries**

Foreign or international trade is related to the dependence of countries on each other. The political and economic stability encourages the foreign trade and the countries involve in it take a lot of benefits. Whenever a country falls in political or economic instability then other countries also fall in crisis. Thus foreign trade either disturbed badly or stopped.

(iii) **Domination of Developed Countries**

Foreign or international trade creates an atmosphere of the domination of developed countries. The countries which are politically and economically established always try to get hold over international markets for the sale of their production. This trend proved to be harmful for the trade relations of the countries.

(iv) **Greed for Foreign Exchange**

Some countries involve to export their surplus production in a very large quantity in order to earn more foreign exchange. It becomes dangerous because the shortage and deficiency of raw-materials or self-manufactured products is produced in those countries and the nation suffers a lot.

(v) **Harmful Goods**

Foreign or international trade also promotes the trade of the products which are injurious to health and moral standard of public.

Q.2 Define Import and Export. Describe in detail the major imports and exports of Pakistan.

Ans: **Import**

The commodity, raw material or a manufactured product which a country purchases from other countries is called as Import. For example there is a shortage of war equipments, machinery and mineral oil in Pakistan and Pakistan imports them from other countries.

**Exports**

The commodity, raw material or a manufactured product which a country sells to other countries is called Export. For example in Pakistan cotton and rice are produced in excess of its demand in the country therefore the surplus quantity of these is exported.

**Major Imports of Pakistan**

Major imports of Pakistan are following.

(i) **Capital Goods**

The goods which are used as capital after their import are called Capital Goods. Heavy machinery, spare parts, machines used in factories, trucks, railway engines and boggies, aircrafts, ships, boats, motor vehicles etc. are included in capital goods.

(ii) **Industrial Raw Material**

The goods or products which used as raw material in the manufacturing process in industry are called Industrial Raw Material. Mineral oil, petroleum products, iron, steel, aluminum, rubber, wood, tyres, tubes etc. are included in this group.

(iii) **Consumer Goods**

The goods which are commonly used in daily life are called Consumer goods. Edible oil, dry milk, tea, coffee, dry fruits, sugar, pulses, flour, spices, medicines, books, magazines, paper, stationary products, toys, carpets, warm clothing etc. are included in consumer goods.



**(iv) Defence Goods**

The goods which are imported for the purpose of defence are called Defence Goods. Pakistan imports defence goods from the countries which have friendly relations with Pakistan. Weapons, fighter planes, war ships, radar, submarines, tanks etc. are included in defence goods.

**Major Exports of Pakistan**

In the beginning the exports of Pakistan consisted of raw materials only. Cotton and leather hides and skins were included in them. Gradually the exports of Pakistan improved. Major exports of Pakistan are following.

**(i) Cotton**

Cotton is the most important export item of Pakistan. Pakistan earns a lot of foreign exchange by exporting cotton, but now the export of raw cotton has been reduced. Many cotton textile mills and factories have been established throughout the country. Now cotton cloth and cotton yarn is exported to other countries.

**(ii) Rice**

Rice is another important agricultural product of Pakistan. Pakistan produces many varieties of rice. Pakistan earns a lot of foreign exchange through the export of rice. Pakistan is famous all over the world for the production of high quality of rice. Arab countries are the chief importers of rice from Pakistan.

**(iii) Sports Goods**

Pakistan has a unique status in the production of sports goods. The raw material required for the production of sports goods is available in abundance in Pakistan. Soft timber and leather is required to make sports goods. These goods are a source of earning a lot of foreign exchange. Sialkot has occupied eminent position in sports goods production. Hockey, cricket bat and ball, football and rackets made in Pakistan are very popular in other countries.

**(iv) Surgical Instruments**

Surgical instruments are also considered as the exports of Pakistan. Different kinds of surgical instruments like knives, scissors, blades etc. are produced at Wazirabad, Sialkot, Gujranwala, Gujrat and Lahore but Wazirabad has occupied a unique status in the production of surgical instruments. Pakistan earns a lot of foreign exchange after exporting surgical instruments to other countries.

**(v) Skins and Leather**

Skins and leather are also chief exports of Pakistan. Leather manufacturing is an important industry of Pakistan. Varieties of shoes, suitcases, vases, hand bags and other leather items are manufactured at Karachi, Hyderabad in Sindh. Lahore, Kasur, Gujranwala, Shaikhupura and Multan are in Punjab. Peshawar and Sawat in Khyber Pakhtun Khwa. Leather is also tanned in Baluchistan. Pakistan exports skins and hides, leather and leather products to other countries and earns a lot of foreign exchange.

**(vi) Fish and Fish Products**

Fish is also included in important exports of Pakistan. Fishing is an important occupation in Pakistan. Fish is not only used as a source of human food but also used in preparing many products. Several by-products are obtained from fish like glue, manure, and liver oil. Fresh water fishing is done in rivers, streams, canals, lakes and ponds while sea water or marine fishing is done in the deep water of the ocean. The government has provided to fishing industry. Pakistan exports fish and fish products to other countries and earns a lot of foreign exchange.

**(vii) Handicrafts**

Handicrafts play a significant role in earning foreign exchange. Carpets are prepared in different parts of Pakistan. Beautiful carpets manufactured in Pakistan are popular in foreign countries. The best quality of carved wooden furniture with glass work, beautiful decoration furniture with different designs and colours, decoration articles made from marble is very famous in other countries. Carved bed sheets, shawls, cushions, carpets, blankets embroidered with floral



designs with colourful silk threads are very popular. Handicrafts is a popular profession of many families in Sindh and Baluchistan. Flower embroidery, leather embroidery and zari work which is golden embroidery is done on cloth in Peshawar, Dera Ismail Khan and Nowshera in Khyber Pakhtun Khwa. All these handicrafts have a big demand in foreign countries and a lot of foreign exchange is earned through their export.

**(viii) Manpower**

Pakistan is rich in manpower besides its agricultural and industrial products. A number of skilled and unskilled labourers are available in Pakistan. A number of Pakistani doctors, engineers, teachers, technical experts and labourers are working in foreign countries. They are serving in foreign countries and contribute in earning foreign exchange for Pakistan.

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**IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) The famous city for sports goods is:  
(a) Sialkot (b) Faisalabad (c) Wazirabad (d) Karachi
- (2) The City of Pakistan famous for the production of surgical instruments is:  
(a) Faisalabad (b) Wazirabad (c) Karachi (d) Hyderabad
- (3) Goods that we sell to other countries are called:  
(a) Consumer goods (b) Imports (c) Exports (d) Capital goods
- (4) The buying and selling of goods and services between the various regions of a country is called:  
(a) Bilateral trade (b) Unlawful trade (c) Domestic trade (d) Foreign trade
- (5) The buying and selling of goods and services between two or more countries is called:  
(a) Market trade (b) Wholesale trade (c) Retail trade (d) Foreign trade
- (6) The goods which are used as capital are called:  
(a) Capital goods (b) Raw material (c) Consumer goods (d) Defence goods
- (7) The goods which are commonly used in daily life are called:  
(a) Stock goods (b) Selling goods (c) Capital goods (d) Consumer goods
- (8) The Arab countries are the largest buyers of rice from:  
(a) Pakistan (b) Afghanistan (c) China (d) Iran
- (9) Goods that we purchase from other countries are called:  
(a) Imports (b) Exports (c) Capital goods (d) Raw material
- (10) Fighter planes, warships, radar, tanks etc. are called:  
(a) Consumer goods (b) Capital goods  
(c) Stock goods (d) Defence goods
- (11) Mineral oil, iron, rubber and metals are included in:  
(a) Consumer goods (b) Capital goods  
(c) Consumer goods (d) Industrial raw material
- (12) The kind of imports of Pakistan are:  
(a) Two (b) Three (c) Four (d) Five
- (13) This country is famous for the production of high quality of rice:  
(a) Saudi Arabia (b) Afghanistan (c) Pakistan (d) Iraq
- (14) Wazirabad is famous for the production of:  
(a) Sports goods (b) Handicrafts  
(c) Surgical instruments (d) Skins and leather
- (15) This trade helps in obtaining foreign exchange:  
(a) Local Trade (b) Domestic Trade (c) Market Trade (d) Foreign Trade



## CHAPTER 12

**PRIVATE AND PUBLIC FINANCE****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** Define the following terms:

- (i) **Public Finance**                      (ii) **Private Finance**  
(iii) **Budget**

**Ans:(i) Public Finance**

The field of inquiry of the income and expenditure of federal, local or provincial government is called as Public Finance. It is the study of the income and expenditure of the government. Public revenue, public expenditure, public debt and public administration are the parts of Public Finance.

**(ii) Private Finance**

The field of inquiry of the income and expenditure of the income and expenditure of an individual or a private firm is called as Private Finance. It is the study of the income and expenditure of an individual or a private firm.

**(iii) Budget**

The document which explains the details of planning aspects of the income and expenditure of the central, provincial or local government is called Budget. In Budget, the details of public finance of the government are written. The budget is divided into two parts, one is called Income Budget while the other is called Expenditure Budget.

**Q.2** Write down the sources of income of the Central Government.

**Ans: The Sources of Income of the Central Government**

The sources of income of the Central Government are following.

- |                |                                 |            |
|----------------|---------------------------------|------------|
| (i) Income Tax | (ii) Sales Tax                  | (iii) Fees |
| (iv) Price     | (iv) Tax on Imports and Exports |            |
| (v) Fines      | (vi) Central Excise Duty        |            |

**Q.3** Write down any five heads of expenditure of the Central Government.

**Ans: The Heads of Expenditure of the Central Government**

The heads of expenditure of the Central Government are following.

- (i) Defence is the main head of expenditure of the central government. 56% approximately is spent on the defence of Pakistan.
- (ii) Law enforcing agencies and police is another head of the expenditure of the central government. A lot of money is spent on the administration of police and other law enforcing agencies.
- (iii) Civil administration is a field of expenditure of the central government.
- (iv) The central government is responsible for the welfare of public, so a lot of money is spent on social welfare of common public.
- (v) Transport and communication are also required to be managed by the central government, so a large amount of money is spent on the construction and administration of transport and communication systems.



**Q.4** Why government need Public Debt? Give reasons and state in a few sentences.

**Ans:** The Need for Public Debt

The loans raised by the government within the country or outside the country is called as Public Debt. The government needs to take loans when its expenditure tends to exceed its revenue. The government has to pay not only the principal amount but the interest acts on borrowing loans.

The need of public debt for the government can be described as following.

- (i) In present days the responsibilities of the government have been increased, in order to fulfill these responsibilities, the government has to take public debt.
- (ii) Sometimes natural calamities like floods, famine, cyclones etc. and sometimes political disturbances like war create a situation of the expansion of expenditure. Thus the government has to take loans to overcome these conditions.
- (iii) For the economic development of under developing countries both industrial and agricultural sectors have their importance. For the rapid progress of these sectors, capital is required. If this capital is not obtained from national savings then it is provided after taking loans.
- (iv) The balance of payment of under developing countries always remains unfavourable. The government also takes loans in order to make the balance of payment favourable.
- (v) These are a number of items of public expenditure which result in the creation of permanent productive assets like dams, power stations etc. Since these assets require a huge amount of investment, so government has to take loans in order to construct productive assets.

**Q.5** What role do productive loans play in the economic progress and prosperity of a country?

**Ans:** The Role of Productive Loans

The role of productive loans in the economic progress and prosperity of a country can be described as following.

- (i) Productive loans are implemented on constructive purposes. These productive debts help in increasing national product and national income.
- (ii) Productive public debts are used for the construction and extension of dams, power houses, roads, barrages and canals.
- (iii) The steps taken by the government through constructive productive loans help in increasing national product.
- (iv) Constructive public debts are the source of bringing steps for the social welfare of public by the government.
- (v) The income of public increases on the basis of constructive public debts, thus the productive loans play a very significant role in the economic progress and prosperity of a country.

**Q.6** Differentiate between private finance and public finance.

**Ans:** Difference b/w Private Finance and Public Finance

PRIVATE FINANCE	PUBLIC FINANCE
(i) Private finance is related to income because common people observe their income then decide for the expenditure on the basis of their income.	(i) Public finance is related to expenditure because the government first determines the expenditure then tries to achieve income through taxes. If the required income is not obtained, the government takes debt.

(ii) In private finance, the loans can be taken only from internal resources like relatives, friends or financial institutions.	(ii) The government prepares its budget at the end of one year. Thus the calculation of income and expenditure is made after one year.
(iii) In private finance, the budget is kept secret.	(iii) In public finance, the government discloses its budget at the end of one year.
(iv) In private finance, the resources are utilized in the sense of earning more and more profit.	(iv) In public finance, the government can take loans from internal resources as well as foreign agencies.
(v) In private finance, the resources are utilized in the sense of earning more and more profit.	(v) In public finance, the government utilizes the resources in order to provide more and more social welfare in society.

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## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** What is meant by Budget? Describe the sources of Income and the heads of expenditure of the Federal Government of Pakistan.

**Ans: Budget**

An estimate of income and expenditure of an individual or of a state for a fixed period of time is called Budget. It is document which gives the calculation of incomes and expenditures of the government for coming year.

### **The Sources of Income of the Federal Government of Pakistan**

It is the responsibility of the Federal or Central Government to manage the country properly and to take the steps for the economic stability throughout the country. Thus the government of Pakistan receives income from different sources, so that all the development and non-development expenditures could be completed. The sources of revenue or income of the Federal or Central Government of Pakistan are following.

**(i) Income Tax**

The government implements taxes on common people and institutions. A tax is a completely contribution imposed by the government. The government receives tax on surplus income which is over than a specific range of income.

**(ii) Sales Tax**

All the commodities which are manufactured within the country, the government imposes tax on them which is called as Sales Tax. It is an indirect tax. These taxes are imposed with respect to the nature, quantity and standard of the manufactured products. These taxes are the important source of revenue of the Federal or Central Government of Pakistan.

**(iii) Fees**

The government provides certain special services to the people and in return receives charges which is called as Fees. Infact fee is that sort of revenue, which is paid to the government for special services rendered by it. For example fees is charged on the provision of T.V. license, arms license and driving license. Fee is also charged on the provision of the duplicate of copies of the documents in courts.

**(iv) Price**

The government also sells some commodities and receives the price for them. For example the wood of the forests, plots of the public land, petrol, electricity and gas etc. are sold by the government. The government receives the price of these products from their customers.

**(v) Tax on Imports and Exports**

Different commodities are exported and imported under foreign trade. The government imposes taxes or duty on export and import items, thus receives a reasonable income through tax on imports and exports.

**(vi) Fines**

The citizens of a country have to act according to laws framed out by the state. On breaking the laws, the courts announce punishment for the law-breakers. They are either sentenced to imprisonment or charged with heavy cash fines. The cash amount received through fined is also a source of revenue of the Federal or Central Government of Pakistan. These fines are generally levied on mixing, high price selling and disobeying the traffic rules.

**(vii) Central Excise Duty**

Central Excise Duty is imposed by the Federal Government on the goods that are manufactured in the factories located within the country regions. The manufacturers of the products merge the amount of the central excise duty into the prices of the manufactured products, thus charge it to the final consumers. Central Excise Duty is commonly imposed on sugar, ghee,



cigarette, tobacco, cloth, fans and electricity. It is a reasonable source of revenue of the Federal Government of Pakistan.

## **The Heads of Expenditure of the Federal Government of Pakistan**

The expenditure of the federal or central government of Pakistan have been divided into two groups which are non-development expenditures and development expenditures. Non-development expenditures are associated to the management of the state, payment of defence debts, expenditures for running the government institutions and other expenditures. On the other hand development expenditures are associated to the development programmes. The heads of the expenditure of the federal or central government of Pakistan can be described as following.

### **(i) Defence**

The stability and sovereignty of a country depends upon its strong defensive power. The state management maintains Army, Navy and Air Force for the defence of the borders of the state in order to achieve strong protection against foreign invaders. The government provides modern war equipments to its armed forces and spends a lot of money on them. About 56% of the income budget is spent on defence.

### **(ii) Law Enforcing Agencies**

The government establishes the police department and other law enforcing agencies in order to maintain peace throughout the country. Thus a lot of money is spent on police and other law-enforcing agencies. Police department and other law enforcing agencies have their responsibility to restore law and order throughout the country.

### **(iii) Civil Administration**

It is the responsibility of the government to establish various kinds of ministries and departments for running the affairs of the state. These departments are associated to civil administration and work under the ministries of foreign affairs, education, health, religious affairs, railways, defence, food and agriculture, internal affairs and transport and communication. The staff is also to be appointed for these departments. These departments have responsibilities to maintain rights and duties of the citizens. A lot of expenditures are required to manage these departments.

### **(iv) Social Welfare**

It is the responsibility of the government to provide educational facilities to public and all citizens of the state. For this purpose, the educational institutions are established at country level where technical, scientific and skill development education and training is provided to the citizens. The government spends a lot of money for this purpose. It is also the responsibility of the government to provide better health facilities to its citizens. For this purpose civil hospitals are established in cities, district hospitals, dispensaries and maternity homes are established in the rural areas. A huge amount of money is spent on the management, provision of medicines and medical equipments of these hospitals and health centers.

The means of transport and communication also play a very significant role in the economic and social welfare of citizens of a state. The government spends a huge amount of money on the construction and extension of roads, railways, telephone and communication facilities. These means of transport and communication can play a very important role in the economic development of agricultural oriented economy of Pakistan. The government of Pakistan paying special attention on the development of means of transport and communication on keeping the view of public welfare and to spend up over all economic progress in Pakistan.

### **(v) Interest of Loan**

Though, the government of Pakistan tries its best to fulfill the expected expenditures from the revenue obtained through the taxes but sometimes, the expenditures are increased unexpectedly because of certain circumstances. In order to overcome these expenditures the government either issues currency notes or imposes new taxes or increases the rate of taxes. Due to these steps taken by the government there is risk of producing political and economic problems. To avoid these circumstances the government takes loans from the central bank or public. The government may also take loans from foreign countries. The government has to pay interest beside





the principal amount of these loans, so the interest of loan is also considered as the expenditure of the central or federal government.

**Q.2** What is meant by Public Debt? Explain its kinds and sources in detail.

**Ans: Public Debt**

The loan which is taken by the government to meet either development expenditure or for unavoidable circumstances which exist all of sudden in the country is called Public Debt.

### **The Source of Public Debt**

The government, first of all tries to adjust accidental expenditures within the range of its budget. In case of failure, the government takes loans from the domestic sources. The domestic sources are the central bank and the loans from public. The government also imposes new kinds of taxes or increases the rates of old taxes. The government also takes loans from foreign resources. Thus central bank, common public are the internal sources of obtaining public debt for the government while World Bank and International Monetary Fund (IMF) are the external sources of obtaining loans.

### **Kinds of Public Debt**

The kinds of public debt are following.

#### **(i) Unproductive Public Debt**

The public debt which is obtained for the provision of unproductive facilities is called Unproductive Debt. This debt is used for the provision of recreational facilities to the public. It is used to increase the facilities of playgrounds, public parks and other facilities like these. Unproductive loans are not used to increase the national product. They are not used to increase the national income or economic prosperity.

- (1) Unproductive debt are spent on such projects which do not help in yielding an income to the government.
- (2) These debts are associated for bringing recreational facilities for the public.
- (3) These debts sometimes used for financing war and providing some sort of relief.
- (4) The money borrowed from these debts is consumed on the construction of public parks, playing grounds, picnic points and other facilities for the recreation of the public.

#### **(ii) Productive Debt**

The debt which is taken by the government for achieving constructive purposes is called Productive Debt. This debt is used to increase the national product. Through productive debt dams, power houses, roads, barrages and canals are constructed. By taking these steps of the government, national product is increased. Per capita income is also increased, thus because of this kind of debt, the standard of life of general public becomes high. Thus productive loans play a very significant role in bringing economic development and prosperity in a country.

- (1) Productive debt is borrowed by the government for the completion of such projects which yield income to the government.
- (2) These debts are used for the construction of roads, railways, motorways, shipyards, big factories, mills, dams, power houses etc.
- (3) These loans are not considered as a burden on the government or nation because they increase the productive capacity of the country.
- (4) Productive debts help in increasing the national product.
- (5) Productive debts increase per capita income and promote the standard of living of common public.





# **IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

Q.1

Choose the correct answer for each of the following from the given options:

- (1) The percentage of income spent on the defence of Pakistan is:  
(a) 40% (b) 50% (c) 56% (d) 100%
- (2) Bank of England started lawful banking in the year A.D.:  
(a) 1694 (b) 1949 (c) 1669 (d) 1946
- (3) Central Excise Duty is imposed by:  
(a) City Government (b) Local Administration  
(c) Provincial Government (d) Federal Government
- (4) Yarn, cotton, rice and sports goods are main:  
(a) Exports (b) Imports (c) Purchases (d) None of these
- (5) The central government spends 56% of its budget on:  
(a) Education (b) Tourism (c) Defence (d) Welfare
- (6) Federal Government Budget is prepared by:  
(a) Planning Commission (b) Cabinet Division  
(c) Ministry of Finance (d) Ministry of Commerce
- (7) The most import source of revenue of the government is:  
(a) Fees (b) Prices (c) Taxes (d) Fines
- (8) Which one is not a direct tax?  
(a) Income Tax (b) Sales Tax (c) Property Tax (d) Wealth Tax
- (9) The approximate period of the public finance is:  
(a) Six months (b) One year (c) Two years (d) Five years
- (10) Under public finance, the government first estimates its:  
(a) Income (b) Expenditure (c) Wealth (d) Stock
- (11) Under private finance, an individual first estimates its:  
(a) Income (b) Expenditure (c) Power (d) Property
- (12) The government imposes this on the income of public and institution at a certain income level:  
(a) Fees (b) Fines (c) Duty (d) Income Tax
- (13) It is paid for the services provided by the government:  
(a) Income Tax (b) Sales Tax (c) Fine (d) Fees
- (14) The tax which imposed on the sale of different commodities is:  
(a) Income Tax (b) Sales Tax (c) Ushr (d) Price
- (15) The government imposes this on ghee, sugar, cigarette, tobacco, cloth, fans and electricity:  
(a) Fines (b) Central Excise Duty (c) Fees (d) Price
- (16) Tax on imports and exports are imposed for the promotion of:  
(a) Internal Trade (b) Wholesale Trade (c) Foreign Trade (d) Retail Trade
- (17) On breaking the traffic rules, it is imposed:  
(a) The payment of fees (b) The payment of tax  
(c) The payment of fine (d) The payment of price
- (18) It is associated with the income and expenditure of the government:  
(a) Revenue (b) Tax (c) Budget (d) Central Excise Duty
- (19) The debt which is taken by the government to provide recreational facilities to public is called:  
(a) Financial Public Debt (b) Favourable Public Debt  
(c) Productive Public Debt (d) Unproductive Public Debt
- (20) The debt which is taken by the government for the construction and extension of dams, power houses, roads, barrages and canals is called:  
(a) Dead Public Debt (b) Unproductive Public Debt  
(c) Productive Public Debt (d) Non-profitable Public Debt



**CHAPTER 13****ECONOMIC DEVELOPMENT IN PAKISTAN****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** Describe the conditions of Pakistan with respect to agriculture and industries in few sentences at the time of independence.

**Ans:** **Economic Conditions of Pakistan at the Time of Independence**

The economic progress of a country depends upon the development in agricultural and industrial sectors. These two sectors are considered as the backbone of the economy. After taking a view of the agriculture and industries in Pakistan before independence, it is concluded that the British totally neglected this region with respect to its importance in agricultural and industrial sectors.

After the independence most of the commodities associated with the daily use are imported from foreign countries. Pakistan was not self-sufficient in food being an agricultural country. The industries were only few in this region and their production was also purposeless. There was not a stable system of banking at the time of independence for the development business, agriculture and industries. Though Pakistan has made much progress after independence but still the country is not self sufficient with respect to agriculture and industries.

**Q.2** Write any five advantages of Forests.

**Ans:** **Advantages of Forests**

Advantages of forests can be described as following.

- (i) The forests are helpful in adding beauty of different regions of Pakistan.
- (ii) Forests provide protection to human beings against windstorms and cyclones.
- (iii) The forests keep the climate moderate and increase the fertility of soil.
- (iv) Forests provide wood which is used as fuel and other constructive purposes. They also provide raw material for many industries.
- (v) The forests play an important role in increasing national income and national product.

**Q.3** Write a short note on the Irrigation System of Pakistan.

**Ans:** **Irrigation System of Pakistan**

Pakistan is an agricultural country and the agriculture depends upon proper irrigation. Pakistan has uncertain rainfall at various regions, so the government of Pakistan has constructed a network of canals for improving the irrigation system of Pakistan. The most important source of irrigation in Pakistan are canals which help in the irrigation in the distant parts of the country. The canal irrigation system in Pakistan is considered as one of the best irrigation system in the world. Tarbela Dam, Mangla Dam and Warsak Dam are the famous dams in Pakistan. These dams also help in flood control.



Q.4 Describe the aims and objectives of the Land Reforms enforced in 1958.

Ans: **Aims and Objectives of the Land Reforms**

The government of Pakistan enforced Land Reforms in 1958. The aims and objectives of these Land Reforms were following.

- (i) The rights of the farmers should be protected.
- (ii) Landlord system should be eliminated in order to overcome the concentration of land ownership.
- (iii) For improving the economic condition of the farmers, a due share should be given to them in agricultural production.
- (iv) Efforts should be made for making good relations between the farmers and the landlords.
- (v) Efforts should be made to stop the land fragmentation and sub-division.
- (vi) Steps should be taken to increase the agricultural output.
- (vii) Efforts should be made to stop unfair terms and conditions and non-economic payments.

Q.5 Write down the important points of the Land Reforms 1958.

Ans: **Land Reforms - 1958**

The Government of Pakistan Land Reforms first time in Pakistan in 1958. These Land Reforms were introduced for the progress of agriculture and the protection of the rights of the farmers.

**Important Points**

- (i) The important points of the Land Reforms - 1958 can be described as following.
- (ii) Special concessions were granted for the women associated to agriculture.
- (iii) The landlord system in agricultural system was announced to be eliminated.
- (iv) A protection of land ownership was given to the cultivators.
- (v) Suggestion was given for joint cultivation by joining small fragments of land.
- (vi) Illegal eject of a farmer from his land was stopped.
- (vii) Loan facilities were provided to new cultivators.
- (viii) Steps were taken to bring the land holding to level of obtaining self-sufficiency.
- (ix) An institute was established for enforcing land reforms throughout the country.
- (x) Agricultural Development Fund was established for making rapid progress of agriculture.
- (xi) The limits of the land ownership were determined. 500 acres of canal irrigated land and 1000 acres of rainy land were allowed to retain the landlords. Besides this 150 acres of land was allowed them for fruit farming. The remaining land was taken over by the government by paying the remuneration.

Q.6 Write down the important points of the Land Reforms enforced in 1972.

Ans: **Land Reforms - 1972**

The government of Pakistan introduced Land Reforms once again in 1972 in order to make further improvements in agricultural system of Pakistan. These land reforms were proved to be beneficial for the agricultural development.

**Important Points**

- (i) The important points of Land Reforms - 1972 can be described as following.
- (ii) The land ownership of agricultural land was changed once again in these land reforms. The landlords were allowed to keep 150 acres of canal irrigated and maximum 300 acres of rainy land for cultivation.
- (iii) The excess agricultural land was distributed among the cultivators after buying it from the landlords.
- (iv) The cattle rearing meadows and the hunting lodges were captured by the government for utilizing them in the development of agriculture.





- (iv) The rule was introduced that the irrigation charges and the taxes will be paid by the landlord. He will also provide the seeds for cultivation but other expenses like provision of fertilizers will be equally shared by both the cultivator and the landlord.
- (v) More than 100 acres of land would not be allotted to the government servants.
- (vi) Under these reforms the remaining installments of the farmers of the land allotted under land reformed - 1958 were given off.
- (vii) The rule was introduced that any landlord would not take unpaid labour from the farmers.
- (viii) According to these reforms, the lease and auction system of the sale of land were stopped. A system of sale of land on easy installments was introduced.
- (ix) It was decided if a landlord wishes to sell his land then would prefer his cultivator.
- (x) Illegal eject of a cultivator from his land was stopped unless the proof of the following charges.
  - (a) He didn't pay the rent.
  - (b) He used the land for cultivation against the agreement
  - (c) He left the land uncultivated without any reason.
  - (d) The cultivator had re-rented his land to someone else.

40 lac acres of land was taken from the landlords and distributed among the cultivators under these reforms. Moreover 5 lac acres of Pat Feder land in Baluchistan was also distributed among the farmers under these reforms in July, 1976. The defects of land owner system were removed through the enforcement of these reforms and the country has achieved progress in agriculture.

**Q.7** What is meant by Land Tenure System. Describe the Land Tenure System in Pakistan briefly.

**Ans:** Land Tenure System

The system which provide the rights of ownership of agricultural land to the landlords is called Land Tenure System.

### Land Tenure System in Pakistan

Pakistan was backward in agriculture at the time of its establishment because the presence defective land tenure system. Because of this land tenure system, the class of the cultivators was treated as slaves. Because of this land tenure system, this class of labourers was living under poverty inspite of doing labour from dawn to dusk. The landlords took a big share after the cultivation of the crops but the cultivators only faced the problems of poverty. The landlords showed no interest in the improvement of agriculture and the welfare of the cultivators. Different forms of land tenure system in Pakistan are following.

#### **(i) Private Landlordism**

The system under which large fragments of land are owned by the landlords who do not cultivate these lands by themselves but hire the poor and helpless cultivators for the cultivation on their lands is called Private Landlordism. These landlords neither take any interest in the improvement of the cultivated land nor they take any interest in the rights and welfare of the cultivators. This system existed for long in Punjab, Sindh and Khyber Pakhtun Khwa.

#### **(ii) State Landlordism**

The system under which the rights of the ownership of the agricultural lands are owned by the state and the government is called State Landlordism. Under this system the government provides the agricultural lands to the cultivators on lease for cultivation. The cultivators have to pay the leasing installments to the government.

#### **(iii) Tenant System**

The system under which the rights of the ownership of the agricultural lands are owned by the government and the cultivators work on these lands as tenants is called Tenant System. This system is existed in the province of Sindh.



**Q.8** Write down any five causes of the agricultural backwardness of Pakistan.

**Ans:** **Agricultural Backwardness of Pakistan**

Five causes of agricultural backwardness of Pakistan are following.

- (i) Literacy rate in Pakistan is quite low. Majority of the farmers in Pakistan are not educated. They have little knowledge about the modern ways of farming.
- (ii) The structure of agriculture in Pakistan is based on landlordism. The landlords or zameendars have the ownership of million acres of land. They get cultivated their lands by the poor and helpless cultivators on hard terms and conditions due to which the efficiency of labour of the cultivators is eliminated.
- (iii) In Pakistan, the modern equipments and modern methods of cultivation are used on a very limited scale. Good quality of seeds and fertilizers are not used for the production, therefore per acre production becomes low.
- (iv) There is no proper management of saving the crops from diseases and pests.
- (v) The distribution of agricultural loans in Pakistan is unsatisfactory, small cultivators who need more loans are not able to receive them easily.

**Q.9** Write down any five suggestions to solve the problems of agriculture and to improve the conditions of agriculture in Pakistan.

**Ans:** **Suggestions to Solve the Agricultural Problems and to Improve the Agriculture**

Following suggestions can be given to solve the agricultural problems and to improve the agricultural conditions in Pakistan.

- (i) The fundamental need is the provision of proper education to farmers and cultivators about agriculture.
- (ii) Availability of loans on easy terms and conditions should be made possible.
- (iii) The means of irrigation should be made more modern and developed.
- (iv) It is necessary to develop those industries which are related to agriculture.
- (v) It is necessary to improve the efficiency of the agricultural institutions in Pakistan.

**Q.10** Write down any five steps taken by the government for the improvement of Agriculture.

**Ans:** **The Steps taken by the Government for the Improvement of Agriculture**

The steps which have been taken by the government for the improvement of Agriculture are following.

- (i) The government has taken steps for the supervision and caring of the forests in Pakistan.
- (ii) The government has improved the irrigation system through the construction of dams and canal networks.
- (iii) The government has established Agricultural Development Banks for providing loans to the farmers and the cultivators.
- (iv) The government has improved the means of transport and communications for the sale and purchase of the agricultural products.
- (v) The government has established Agricultural Extension Centres at various places to provide better quality of seeds, fertilizers and pesticides for getting better yield. These centres also help in introducing modern techniques and machinery in agriculture.

**Q.11** Write down the importance of Industrial Development in few sentences.

**Ans:** **Importance of Industrial Development**

The importance of industrial development can be described as following.



- (i) Industries are the source of economic development because the development of other sectors also depends upon the development of industries.
- (ii) Due to industrial development, commodities are manufactured on large scale to fulfill local and national needs.
- (iii) With the help of industrial development, the value of raw material is raised by manufacturing them into finished goods through industries.
- (iv) Due to industrial development, the country becomes self-reliant and prosperous and the standard of living of people is also improved.
- (v) Industrial development is a source of providing employment. In industries different skillful and expertise are needed. Thus industries provide employment to a number of people.

**Q.12** Write down five sentences on the Industrial Development in Pakistan.

**Ans:** Industrial Development in Pakistan

A brief description of industrial development of Pakistan can be given as following.

- (i) Pakistan inherited such territories which were industrially backward.
- (ii) East Bengal produced 50% of the jute in the world but no jute industry was set up.
- (iii) At the time of independence seven factories of cotton, sugar and cement existed in Pakistan.
- (iv) Keeping the view of industrial backwardness, the government of Pakistan started its efforts to provide industrial base to the country. In 1948, an industrial policy was announced which encourage private investment in industrial sector.
- (v) Pakistan made great progress in industries due to the efforts of the government.

**Q.13** Write down five suggestions to increase the industrial output in Pakistan.

**Ans:** Suggestions to Increase the Industrial Output in Pakistan

Following suggestions can be given to increase the industrial output in Pakistan.

- (i) Law and order situation in the country should be improved.
- (ii) Rules and regulations for trade should be made easier and simplified.
- (iii) A sense of dignity of labour is created while training the staff in order to create the sense of devotion to work.
- (iv) A strict system of quality control should be set up.
- (v) Industrial loans should be provided on easy terms and conditions for the expansion of small industries.

**Q.14** Write down any five steps taken by the government for industrial development in Pakistan.

**Ans:** Steps taken by the Government for Industrial Development in Pakistan

The steps which have been taken by the government of Pakistan for the development of industries can be described as following.

- (i) In 1952, the government established Pakistan Industrial Development Corporation (P.I.D.C.) for the growth of industries in Pakistan.
- (ii) The government also established Industrial Development Bank (I.D.B.P) for providing for the establishment and extension of industry.
- (iii) The government has also established a Tarrif Board for providing protection to local industries.
- (iv) In order to solve the industrial problems, the government has established a department in 1949 which then established industrial research centres at various places.



- (v) The government has granted special concessions in taxes to the investors for establishing new industries in Pakistan.

**Q.15** Write down the names of any five famous industries of Pakistan.

**Ans:** Famous Industries of Pakistan

The names of five famous industries of Pakistan are following.

- |                             |                              |
|-----------------------------|------------------------------|
| (i) Cotton Textile Industry | (ii) Sugar Industry          |
| (iii) Cement Industry       | (iv) Iron and Steel Industry |
| (v) Fertilizer Industry     |                              |

**Q.16** Name any five Financial Institutions established by the government for the economic stability of Pakistan.

**Ans:** Financial Institutions of Pakistan

The names of financial institutions established by the government for the economic stability of Pakistan are following.

- |   |
|---|
| (i) Pakistan Industrial Credit and Investment Corporation (PICIC) |
| (ii) House Building Finance Corporation (HBFC)                    |
| (iii) Small Business Finance Corporation (SBFC)                   |
| (iv) National Finance Corporation (NFC)                           |
| (v) Pakistan Investment Corporation (PIC)                         |

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MORE!!!**





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** Describe in detail the steps taken by the Government of Pakistan for the development of Agriculture Sector.

**Ans:** Steps taken by the Government for the Development of Agriculture Sector

Pakistan is basically an agricultural country. About 67.5% of its population living in rural areas is directly or indirectly engaged with agriculture. The agriculture of Pakistan is known as subsistence agriculture. More than 50% labour force of Pakistan is directly associated with agriculture. The development of every economic sector of Pakistan is associated with agriculture, so special attention was given towards the agriculture sector just after the establishment of Pakistan. The policies were made for the development of agriculture. The steps taken by the government for the development of agriculture sector can be described as following.

### (1) Forests

Forest play an important role in the development of agriculture because they keep the climate moderate, help in the continuous flow of the rivers and increase the fertility of the soil. They also help in protection from windstorms and cyclones. The government of Pakistan has given special attention for the protection and growth of the forests. In Pakistan, only 4.5% land is under forests, therefore the steps taken effectively to supervise and caring of the forests. A Forestry Department has established for the supervision of the forests. Plantation week is celebrated twice in a year in the months of February and August. In this programme the Forestry Department motivates the people for the plantation and protection of plants. The trees are planted on roads, railways and the banks of canals. Positive results have been derived through these steps and profound effects have been developed in maintaining the climate, rainfall and soil fertility of the country.

### (2) Irrigation System

Rainfall is uncertain in the most areas of Pakistan. The major part of the cultivable land in Pakistan was depended upon rainfall at the time of independence. The government of Pakistan tried to improve the irrigation system and constructed a network of canal in the distant parts of the country, so that the agricultural production might not be decreased due to the shortage of water. The government constructed dams on rivers to achieve this purpose for storing water in them. 73% area in Pakistan is under cultivation which depends upon irrigation through canals and other sources like tube wells, wells and karez. Pakistan has the biggest canal system in the world. There is a wild spread network of canals in Punjab and Sindh through headworks, barrages and dams. River water is provided to distant areas through these canals to sustain and increase agriculture production. Tarbela Dam, Mangla Dam and Warsak Dam are the famous dams of Pakistan. Many canals have been associated to these dams which help in irrigation. These dams also help in flood control.

### (3) Establishment of Agricultural Bank

The government has established Agricultural Bank. The branches of Agriculture Bank have been extended to every nook and corner of the country. Agricultural Development Bank (ADBP) was established in 1961 and now it is known as Zarai Taraqiati Bank Limited (ZTBL). The bank provides loans to the farmers and cultivators on easy terms and conditions. Soft loans are provided to farmers and cultivators for purchasing modern agricultural equipments, fertilizers, high quality of seeds, tractors, pesticides etc. The bank provides short term and long term loans. Short term loans are used for purchasing seeds, fertilizer and pesticides etc. while long term loans are provided to the cultivators and farmers to purchase thresher, bulldozer and other agricultural machinery. Loans for installation of the tube-wells are also provided. These loans are recovered in easy installments.



#### (4) **Better Transport and Communication System**

Efforts were made to improve the means of transport and communication, so that the people associated with agriculture increase the agricultural production after using these facilities. Metalled roads constructed in distant parts, thus agricultural markets established at various places. The farmers and cultivators started to sell their production in these markets, thus got a reasonable price for their production. Besides this the farmers and cultivators provided facilities to purchase the required items for agriculture through these markets. These agricultural markets were connected to small and big town through telephone and telegraph which produced an atmosphere of agricultural progress in Pakistan.

#### (5) **Establishment of Agriculture Extension Centres**

The government of Pakistan has also established Agriculture Extension Centres at various places for the growth and development of agriculture. These Agriculture Extension Centres perform following functions.

##### (i) **Provision of better Quality of Seeds and Fertilizers**

The government of Pakistan has provided fine quality of seeds and fertilizers on behalf of Agriculture Extension Centres. Fine quality of seeds play a significant role in getting good crops. The government itself purchases fine quality of seeds and then provides them to the farmers and cultivators at the time of sowing the seeds for obtaining crops. Many fertilizer manufacturing factories are also working in the country which always remain in close connection with the Agriculture Extension Centres.

##### (ii) **The Use of Modern Machinery**

Agriculture Extension Centres have established "Model Plots" at various regions and introduced the modern methods of farming to the farmers and cultivators. On these model plots the farmers and cultivators are trained for the use modern agricultural equipments. They are also trained with the time of sowing the seeds and the addition of fertilizer. As the farmers and cultivators were habitual of the use of old methods of farming, so they took much time for getting the training of modern ways of farming. A trained staff on model plots trains practically the farmers and the cultivators about the modern methods of farming. After adopting the modern techniques of cultivation, the agricultural production of the country has increased effectively.

##### (iii) **Protection of Crops**

Insects and pests destroy the crops which are ready to be cultivated. A trained staff spray the pesticides and other medicines through vehicles and planes in order to protect the crops from harmful insects. Thus the crops are protected from being destroyed. Pesticides and insecticides are also provided to the farmers and the cultivators.

In addition to these preventive measures, the Department of Agriculture advertise the modern ways of cultivation with the help of its various sub-division through newspapers, magazines and radio and television programmes. The farmers and the cultivators are tried to be convinced of the use of modern methods for cultivation with the help of lectures, dramas and articles. The use of modern equipments of agriculture is also advertised through these means. The farmers and cultivators are get informed through these efforts about the availability of agricultural loans, good quality of seeds and fertilizer and the use of modern techniques of agriculture.

#### (5) **Cultivable and Reforms**

It is necessary to solve the agricultural problems of Pakistan that different kinds of land reforms are enforced throughout the country. The government of Pakistan has introduced land reforms in 1958, 1972 and 1977. Under these reforms, the government is a ceiling on land holding of big landlords and distributed the surplus land among landless farmers. The objectives of these land reforms were to improve the relations between the tenants and the land-owners; abolish the monopoly of big landlords and to develop the system of agricultural productivity. But still there is need to make more land reforms so that the uncultivated land could be used for production.



**Q.2** *Elaborate the importance of Industrial Development to the country. Also explain the steps taken by the government in this regard. Describe in detail the steps taken by the government of Pakistan for the development of Industrial Sector. (OR) Describe in detail the steps taken by the Government for the development of industries in Pakistan.*

**Ans: The Importance of Industrial Development**

Industries are essential component of a country with the discovery of agricultural natural resources, it had become necessary to invent machines to get optimum benefits of the resources. Raw materials are converted into durable goods and help in the production of food for human beings. In Pakistan the efforts were made for the development of industries in 1958 through economic planning. Both industrial and agricultural sectors are essential for the economic stability of a country. Industrial sector is another important sector after the agricultural sector in the economy of Pakistan. The importance of industrial development can be described as following.

- (i) The opportunities of employment are created due to the development and expansion of industries.
- (ii) The industries play an important role in increasing the production, so they help in promoting the exports and discourage the imports.
- (iii) Finished products are exported instead of raw material because of industrial development.
- (iv) The industrial development bring prosperity and economic stability to a country.
- (v) Modern equipments and machinery can be manufactured for the development of industry and agriculture because of industrial development.
- (vi) Defence requisites of a country can be obtained to a certain limit because of industrial development.
- (vii) The standard of living of common people becomes high because of industrial development. The industrial development brings peace and prosperity and help in decreasing the rate of crimes.
- (viii) Industrial development changes the way of thinking of common people.
- (ix) Industrial development is a source of making a state as a welfare state.
- (x) Due to industrial production not only the country requirements are fulfilled but these industrial products are also exported to other countries. Thus a country gains internal and external money exchange because of industrial development.

**The Steps taken by the Government for the Development of Industrial Sector**

The steps which have been taken by the government for the development of industries or industrial sector can be described as following.

**(1) Pakistan Industrial Development Corporation (P.I.D.C.)**

The Government of Pakistan established Pakistan Industrial Development Corporation (P.I.D.C.) in January, 1952 to encourage the capitalists. The main purpose of this corporation was the establishment of these industries which were neglected by the capitalists. This corporation also encourages the investment from private sector. The corporation established heavy industries like cement, paper, chemical fertilizer and ship building. These industries now do not fulfill the domestic requirements but help in earning foreign exchange.

**(2) Industrial Development Bank of Pakistan (I.D.B.P.)**

The Government of Pakistan established Industrial Development Bank of Pakistan (I.D.B.P.) in August, 1961. The main objectives of the bank were to provide financial assistance for the promotion of industries, establishment of new industries and rehabilitation existing industrial units in the form of short term and long term loans. There are many branches of this working at



various places for providing loans for the development of industries. This loan is provided in local as well as in foreign currency. This bank has issued loans for the development of the industries of transport, paper, rubber, electrical goods and engineering machinery.

### (3) **Pakistan Industrial Credit and Investment Corporation (PICIC)**

This corporation has played a very significant role in the industrial development of Pakistan. This corporation was established in 1957. It provides medium and long term loans in foreign and local currencies for the period from seven years to twelve years. It assists entrepreneurs to obtain fair prices and assists also foreign investors to locate suitable investment opportunities in Pakistan.

### (4) **Protection of Industries**

The government of Pakistan has established a "Tariff Board" to promote and protect the domestic industries and domestic production. This board gives a protection to domestic industries. This board tries to discourage imports by imposing heavy duties on imported items. In this way, people are inclined towards the purchasing of domestic products and the domestic industries acquire the opportunities to promote and increase their production.

### (5) **Industrial Research Centres**

The government of Pakistan established an institute on Industrial Research in 1949 to promote the industries in Pakistan. This institute played its role significantly by establishing various industrial research centres. These centres help in solving industrial problems in the area of their location. These centres provide help in the provision of raw-material, cost of production and standard of goods in order to make quick development for industries.

### (6) **The Provision of Foreign Capital**

The government of Pakistan also provides foreign capital for the establishment of such industries which acquire foreign capital for their establishment. This foreign capital helps in purchasing heavy machinery and plants for manufacturing purposes. The services of the foreign experts and technicians can be obtained through the foreign capital.

### (7) **Concession in Taxes**

The government of Pakistan always grants a special concession in taxes for newly established industries in order to make their progress. This process encourages the capitalists in industrial sector. The government has also established tax-free zones for the establishment of industries. In these zones the application of tax is not applied for a certain period for five to ten years.

**Q.3** Describe briefly about the main industries of Pakistan. (OR) Write a note on main industry of Pakistan.

**Ans:** **Main Industries of Pakistan**

Some important industries of Pakistan are following.

#### (i) **Cotton Textile Industry**

Cotton textile industry is the big industry of Pakistan. Each year millions of foreign exchange is earned through the export of cotton cloth and yarn. The factories or mills of manufacturing cotton cloth have been established at Karachi, Hyderabad, Faisalabad, Khairpur, Gambat, Tandojam, Larkana, Shaikupura, Rawalpindi, Jhelum, Bhakkar, Liaquatabad, Muzaffargarh, Rahim Yar Khan, Sargodha, Borewala, Sahiwal, Peshawar, Haripur, Hazara, Sawat, Kohat, Bannu, Dera Ismail Khan, Othal, Okara, Lahore, Multan and Khanewal. Cotton textile mills have been established in four provinces of Pakistan.

#### (ii) **Woolen Textile Industry**

Pakistan has also woolen textile industry but it is not as rich as cotton textile industry. The reason that wool in Pakistan is not of high quality. Most of the wool in Pakistan is used for carpet making. However major woolen centres are located at Karachi in Sindh. Lawrencepur,



Rawalpindi, Lahore, Quaidabad in Punjab. Harnai, Mustung in Balochistan and Bannu and Nowshera in Khyber Pakhtunkhwa. Woolen yarn and blankets are manufactured in this mills. Woolen cloth is also manufactured here. The Lawrencepur and Karachi woolen mills produce high quality of woolen cloth.

### (iii) **Paper Industry**

Paper industry is also an important industry of Pakistan. In Pakistan paper and cardboard are manufactured. The mills manufacturing paper and cardboard have been established at Charsadah, Amargarh and Gharo.

### (iv) **Chemical Fertilizer Industry**

The chemical fertilizer industry in Pakistan is meeting the needs of chemical fertilizer necessary for agricultural production. Different kinds of fertilizers are produced by the fertilizer industries established at various places. Pakistan produce surplus chemical fertilizers which is exported to other countries. There are 10 fertilizer units in the country, five in the Punjab, three in Sindh and two in Khyber Pakhtun Khwa. Main factories of chemical fertilizers are located at Dawood Khel, Mirpur mathelo, Multan, Sadiqabad, Hazara, Dharki, Shaikupura and Faisalabad.

### (v) **Sugar Industry**

Sugar industry is one of the biggest industry in Pakistan. Pakistan started with two sugar mills at Rahwali near Gujranwala in Punjab and Takhtbai in Khyber Pakhtun Khwa at the time of independence. Sugar is made out of sugarcane which is cultivated in large quantity in Punjab, Sindh and Khyber Pakhtun Khwa. There are 78 sugar mills in the country out of which 40 in Punjab, 32 in Sindh, 6 in Khyber Pakhtun Khwa with capacity to produce 5 million tons of refined sugar. Pakistan is not only sufficient in the product of sugar bill also earns a valuable foreign exchange through the export of sugar. Main sugar mills in Pakistan are located at Thatta, Dadu, Tando Muhammad Khan, Badin, Talhar, Tando Alahyar, Mirpur Khas, Charsaddah, Larkana, Bahawalpur, Khan Pur, Jhang, Chistian and Murdan.

### (vi) **Cement Industry**

Limestone and Gypsum are used in the manufacturing of cement. Pakistan has the largest deposits of both limestone and gypsum. Therefore a number of big cement factories have been established in public and private sectors. Pakistan had only five cement factories at the time of independence. The public sector cement factories are under the administrative control of Pakistan. State Cement Corporation. In Pakistan main cement factories are located at Karachi, Hyderabad, Rohri, Thatta, Dawood Khel, Dandot and Wah.

### (vii) **Vegetable Ghee and Cooking Oil Industry**

In Pakistan vegetable ghee and cooking oil industry was established in private sector but it was nationalized in 1973. Out of 26 factories, 23 were nationalized and put under the control of Ghee Corporation of Pakistan. Raw material for vegetable ghee industry is imported because local raw material for this industry is not sufficient. Vegetable ghee and cooking oil is manufactured in various cities of Pakistan. Main factories of vegetable ghee and cooking oil are located at Karachi, Hyderabad, Lahore, Faisalabad, Quetta, Rahim yar Khan, Multan, Nawabshah, Bahawalpur, Nowshera, Haripur, Dera Murad Jamali and Cheecha Watni. The industry is now entirely in private sector after privatization. It comprises 160 units in organized and unorganized sectors. The installed capacity of these factories is 27 million tones.

### (viii) **Iron and Steel Industry**

In the beginning there was no factory of iron and steel in Pakistan but the industry began to grow. The first Iron and Steel Mill located at Chittagang was completed in 1959 after independence. Pakistan was deprived of it as a result of separation of the East Pakistan. Iron and Steel industry depends upon iron ore. The iron-ore deposits are located at Kala Bagh. Makarwal in Punjab, Langaral in Khyber Pakhtunkhwa and Khazdar, Ziarat, Chil Ghazi and Nokkundi in Balochistan. But these reserves not enough for the country need and hence Pakistan has to depend on iron-ore and steel imported from other countries. Main iron and steel manufacturing mills are located in Karachi, Taxila and Lahore.





A big factory of manufacturing of iron and steel which located at 40 kilometres away from Karachi near Port Qasim known as Pakistan Steel Mill. It was established with co-operation of Russia in 1973. For manufacturing heavy products of iron and steel another factory was established at Taxila known as Heavy Mechanical Complex Taxila. It was established with the assistance of China in 1968. It meets the requirements of railway, automobiles, sugar mills, cement factories, textile machines, fertilizer industries, trucks and spare parts. With the establishment of Taxila Complex, the imports for steel and machines have been reduced.

**Q.4** Describe the development of the System of Banking in Pakistan. Describe briefly about the financial institutions established by the government for the economic stability in Pakistan.

**Ans:** Development of Banking System in Pakistan

There were 38 commercial banks working in Pakistan at the time of independence. Out of these 38 commercial banks only two were owned by Pakistan. Seven other banks were Exchange Banks and 29 Banks were Indian Banks. The Reserve Bank of India was serving as the Central Bank of both Pakistan and India, the staff members were mostly non-Muslims. Thus the policies adopted by the central bank and other commercial banks was not in favour of Pakistan. The other foreign banks in Pakistan were only working for their commercial benefits and they had no interest in the economic progress of Pakistan. Under these critical circumstances, the government of Pakistan decided to establish its own banking system. The Quaid-e-Azam Muhammad Ali Jinnah inaugurated the State Bank of Pakistan on July 1, 1948.

The establishment of own central bank in Pakistan stopped the monopoly of the Reserve Bank India in the monetary and economic affairs of Pakistan. Still there was a space of the existence of commercial banks in Pakistan because of Habib Bank Limited and Bank of Australia only two commercial banks which were insufficient to meet all the commercial requirements of the country. So, the first commercial bank namely National Bank of Pakistan was established in November, 1949. The bank started its functioning by issuing loans for the development of trade sector and to facilitate the foreign trade in imports and exports. After this the banking system in Pakistan started to make quick progress. Before the fall of Dacca, the number of commercial banks in the East Pakistan was 17 from only two at the time of establishment of Pakistan. The branches of commercial banks were also increased from 20 to 2534. Besides this the branches of foreign banks were also increased from 19 to 77. The reserved capital in the commercial banks were also increased to Rs. 1354.76 crores. The rate of depositing amount in these commercial remained Rs. 15.09 per annum till 1971. The commercial banks also started to establish their branches in other countries.

The government of Pakistan adopted a policy of nationalization of the commercial banks and all commercial banks were nationalized on January, 1974. Out of these banks fifteen banks were Pakistani banks while the other were foreign banks. Habib Bank, Muslim Commercial Bank, Commerce Bank, Standard Bank, Australia Bank were included in these banks. The total deposited amount of these commercial bank was equal to the sum of Rs. 158 crores on January 01, 1974. These banks had issued a loan of Rs. 113.9 crores till 1973.

After passing these circumstances, the State Bank of Pakistan started a strict supervision of the banking system of Pakistan. Now, the State Bank of Pakistan provides guidance to all commercial banks and other financial institutions in the process of issuing loans for commercial objectives. The State Bank of Pakistan also keeps the record of foreign transactions in order to keep the balance of payment favourable.

### Important Financial Institutions

The government of Pakistan has established following financial institutions for bringing economic stability and prosperity in Pakistan.

(1) **Pakistan Industrial Credit and Investment Corporation (PICIC)**

Pakistan Industrial Credit and Investment Cooperation (PICIC) was established in 1957.



It provides medium and long term loans in foreign and local currencies. It also encourages foreign investment and makes efforts for the establishment of joint industrial projects. The encouragement of the foreign investors for the investment in Pakistan is the main duty of this corporation.

**(ii) House Building Finance Corporation (HBFC)**

House Building Finance Corporation (HBFC) is a national institution. This corporation issues loans for the construction of house building projects. It generally prefers the issuance of small amount of loans and receives them in easy installments. Branch offices of this corporation are located almost every city of Pakistan. People can easily apply from house building loans in this corporation.

**(iii) Small Business Finance Corporation (SBFC)**

Small Business Finance Corporation (SBFC) is a financial institution which serves for the development of small business and industries. This corporation issue loans to technical experts and skilled persons who have the capability of establishing their own business but they are helpless because of the unavailability of capital. This corporation enables such persons to establish small scale industries or small business in order to earn their livelihood respectfully in society.

**(iv) National Finance Corporation (NFC)**

National Finance Corporation (NFC) is also a national development financing cooperation. This cooperation receives funds from the deposits of common people and raises its capital. It invests these funds for the development of industries and pays high rate interest to its depositors.

**(v) Pakistan Investment Corporation (PIC)**

Pakistan Investment Corporation (PIC) has been established to encourage the business of bonds and shares of companies. It encourages common people to purchase the bonds and shares of companies on the basis of profit and lose sharing partnership. The share holders get their profit or loss in accordance to their investment and the ratio of their shares. Under this scheme, the corporation, the investors make their investment jointly for the promotion of trade and business.





## IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) The National Bank of Pakistan was came into being in:  
(a) 1947 A.D. (b) 1948 A.D. (c) 1949 A.D. (d) 1950 A.D.
- (2) The Central Bank of Pakistan is:  
(a) National Bank (b) Habib Bank (c) United Bank (d) None of these
- (3) The Pakistan Industrial Development Corporation was established in:  
(a) 1948 A.D. (b) 1952 A.D. (c) 1958 A.D. (d) 1960 A.D.
- (4) The solidarity and integrity of a country depends upon its:  
(a) Strong defence (b) Business (c) Trade (d) Education
- (5) Pakistan Industrial Development Corporation (PIDC) provides loans for:  
(a) Trade (b) Business (c) Industries (d) Agriculture
- (6) The banking system of any country is controlled by:  
(a) Commercial Bank (b) Central Bank (c) National Bank (d) City Bank
- (7) The State Bank of Pakistan was inaugurated by:  
(a) Liaquat Ali Khan (b) Miss Fatima Jinnah (c) Quaid-e-Azam (d) Khwaja Nazimuddin
- (8) The State Bank of Pakistan keeps this percentage of the total value of the issued notes in reserve in the form of gold, silver and foreign exchange:  
(a) 30% (b) 40% (c) 50% (d) 70%
- (9) During the period of 1983-84, per capita income of Pakistan was:  
(a) 342 dollars (b) 420 dollars (c) 746 dollars (d) 890 dollars
- (10) The first census in Pakistan took place in the year A.D.:  
(a) 1948 (b) 1949 (c) 1951 (d) 1972
- (11) The State Bank of Pakistan was established in:  
(a) November, 14, 1947 A.D. (b) July 01, 1948 A.D. (c) August 14, 1949 A.D. (d) December 25, 1972
- (12) The first Commercial Bank established after the independence on November 1949 was:  
(a) National Bank of Pakistan (b) Habib Bank Limited (c) Muslim Commercial Bank (d) United Bank Limited
- (13) The land under forests in Pakistan is:  
(a) 3.2% (b) 4.3% (c) 4.5% (d) 5.6%
- (14) Mangla Dam has been constructed on the river:  
(a) Chenab (b) Ravi (c) Indus (d) Jhelum
- (15) Warsak Dam has been constructed on the river:  
(a) Indus (b) Kabul (c) Chenab (d) Jhelum
- (16) Tarbela Dam has been constructed on the river:  
(a) Kabul (b) Indus (c) Ravi (d) Jhelum
- (17) Most of the human population in Pakistan is associated with:  
(a) Trade (b) Mining (c) Agriculture (d) Industry
- (18) It has great importance in the economic system of Pakistan:  
(a) Agriculture (b) Trade (c) Exports (d) Mining
- (19) Pakistan Steel Mills was established 40km away from Karachi with the cooperation of:  
(a) India (b) China (c) Iran (d) Russia
- (20) Limestone and Gypsum are used in the manufacturing of:  
(a) Iron and Steel (b) Paper (c) Cement (d) Cardboard
- (21) Heavy Mechanical Complex Taxila was established in 1968 with the cooperation of:  
(a) China (b) Russia (c) Afghanistan (d) Iran





- (22) The government of Pakistan has provided irrigation facilities for agriculture through:  
 (a) Wells (b) Canal Irrigation System  
 (c) Tube-Well System (d) Purification of Sea Water
- (23) The Dams stored water and they also provide help in:  
 (a) Windstorm Control (b) Cyclone Control  
 (c) Flood Control (d) Credit Control
- (24) The average rate of rainfall in Pakistan is:  
 (a) Very high (b) Very low (c) Moderate (d) Extreme
- (25) The branches of this bank provide loans to the farmers and cultivators on easy terms and conditions:  
 (a) Exchange Bank (b) Commercial Bank  
 (c) Industrial Development Bank (d) Agricultural Development Bank
- (26) For training the farmers and cultivators, the Agriculture Extension Centres have established:  
 (a) Green Houses (b) Nurseries (c) Model Plots (d) Agricultural Markets
- (27) The government of Pakistan first time enforced Land Reforms in the year:  
 (a) 1948 A.D. (b) 1950 A.D. (c) 1952 A.D. (d) 1958 A.D.
- (28) Second Land Reforms in Pakistan were enforced in the year:  
 (a) 1958 A.D. (b) 1965 A.D. (c) 1972 A.D. (d) 1980 A.D.
- (29) The government of Pakistan has established this for the protection of local industries:  
 (a) Industrial Bank (b) Planning Commission  
 (c) Tariff Board (d) Industrial Board
- (30) The number of commercial banks in Pakistan at the time of independence was:  
 (a) 20 (b) 25 (c) 38 (d) 48
- (31) This institution encourages common people for purchasing the shares of companies:  
 (a) House Building Finance Corporation (b) Pakistan Investment Corporation  
 (c) Small Business Finance Corporation (d) National Finance Corporation
- (32) It is the main source of irrigation in Pakistan:  
 (a) Wells (b) Karez (c) Canals (d) Tube-Wells
- (33) For the economic stability of a country these sectors are essential:  
 (a) Mining and Fishing (b) Trade and Agriculture  
 (c) Agriculture and Industry (d) Agriculture and Teaching
- (34) Every country tries to keep:  
 (a) Unfavourable balance of payments (b) Favourable balance of payments  
 (c) Value of money (d) Purchasing Power
- (35) In food crops, Pakistan cultivates on large area:  
 (a) Wheat (b) Rice (c) Corn (d) Sugarcane
- (36) Pakistan is basically a country of:  
 (a) Agriculture (b) Industry (c) Trade (d) Economics
- (37) When two countries trade with each other, they decide the:  
 (a) Laws (b) Conditions (c) Commission (d) Rate of Tax
- (38) The Seed Research Centres are located in Sindh at:  
 (a) Hyderabad (b) Khairpur (c) Tandojam (d) Larkana
- (39) All commercial banks were nationalized by the government in the year:  
 (a) 1954 A.D. (b) 1963 A.D. (c) 1974 A.D. (d) 1981 A.D.
- (40) It issues loans for the construction of house building projects:  
 (a) Small Business Finance Corporation (b) House Building Finance Corporation  
 (c) National Finance Corporation (d) Pakistan Investment Corporation





## CHAPTER 14

**ISLAMIC ECONOMIC SYSTEM****IMPORTANT SHORT QUESTIONS & ANSWERS**

**Q.1** Define Islamic Economic System. What is meant by the Islamic System? Explain.

**Ans:** **Islamic Economic System**

An economic system which is based upon the principles as stated by Islam is called as Islamic Economic System. The Islamic Economic System is established on the principles of the Holy Quran and the Sunnah. This system is based on the concept that all individuals of an Islamic Society are accountable to Almighty Allah for their actions and deeds so they should organize their economic activities with the cooperation of each other for the welfare and prosperity of the state.

**Q.2** Write down the characteristics of the Islamic Economic System. Write down the salient features of the Islamic Economic System.

**Ans:** **The Characteristics of the Islamic Economic System**

Important characteristics of the Islamic Economic System are following.

- (i) According to this system, all individuals of an Islamic State are accountable to Almighty Allah for this actions and deeds on the day of judgment, so they should prefer lawful earning in organizing their economic activities and always avoid unlawful means of obtaining their livelihood.
- (ii) The Islamic Economic System allows to take benefits from all existing natural resources collectively with the cooperation of each other and for the welfare of the state.
- (iii) The Islamic Economic System encourages private ownership, complete freedom of economic struggle and justified distribution of wealth.
- (iv) The Islamic Economic System strictly prohibits luxuries, useless expenditures, the use of drugs, the business of drugs and narcotics and hoarding.
- (v) The Islamic Economic System presents better, effective and very comprehensive principles of the production, consumption and distribution of wealth.

**Q.3** Why is Islamic Economic System better than other systems? Explain in few sentences.

**Ans:** **Superiority of Islamic Economic System**

The Islamic Economic System is better than all other economic systems like socialism, capitalism and the system of mixed economy. The superiority of the Islamic Economic System can be described as following.

- (i) The Islamic Economic System stresses upon only lawful earning while the other economic systems do not care about it.
- (ii) The Islamic Economic System strictly prohibits the use of drugs and the business and trade of drugs and narcotics while the other systems adopt them as a flourishing business.
- (iii) The Islamic Economic System strictly prohibits hoarding while the other economic system encourage hoarding for earning more profit in future.
- (iv) The Islamic Economic System stresses upon the use of natural resources for the welfare of mankind while the other economic system encourage the use of natural resources only for the progress of business and trade.





- (v) The Islamic Economic System stresses upon the distribution of wealth through the payment of Zakat, Sadqat, Ushr etc. while the other economic systems are related to the concentration of wealth which promotes class differences.

**Q.4 Compare the Islamic Economic System with Capitalism.**

**Ans: Comparison of the Islamic Economic System and Capitalism**

THE ISLAMIC ECONOMIC SYSTEM	CAPITALISM
(i) The Islamic Economic System stresses upon lawful earning of profit upto a certain limit.	(i) Capitalism stresses upon earning profit on the basis of demand and supply forces.
(ii) Social welfare through the economic activities is the main objective of the Islamic Economic System.	(ii) Profit earning is only the primary motive for organizing economic activities in capitalism.
(iii) Islam strictly prohibits hoarding and it is restricted in the Islamic Economic System.	(iii) Capitalism takes hoarding as beneficial for earning more profit in future.
(iv) In the Islamic Economic System the investment is promoted for the welfare of society.	(iv) In capitalism, the investment is promoted only for the prosperity of the capitalists.
(v) The Islamic Economic System prohibits the payment of interest. It promotes interest free economy.	(v) The only way of the progress of the capitalism is the interest-oriented economy.

**Q.5 Compare the Islamic Economic System with Socialism.**

**Ans: Comparison of the Islamic Economic System with Socialism**

THE ISLAMIC ECONOMIC SYSTEM	SOCIALISM
(i) The Islamic Economic System is based upon the principles of the Quran and Sunnah.	(i) Socialism is based upon the theory of collective ownership presented by Sir Thomas More.
(ii) The Islamic Economic System encourages the right of private ownership.	(ii) There is no concept of private ownership in Socialism.
(iii) The Islamic Economic System does not enforce any restriction on economic system.	(iii) Socialism enforces many restrictions on economic freedom and the choice of profession.
(iv) Under the Islamic Economic System the government allows the private sector to utilize the resources for public welfare.	(iv) In Socialism, all the productive means are under the ownership of the government.
(v) The Islamic Economic System discourages the interest and concentration of wealth through the enforcement of Zakat and Ushr System.	(v) Socialism discourages the interest and concentration of wealth through stopping the competition in open market.





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** Compare Islamic Economic System with Capitalism and Socialism and describe its important features in detail. What is meant by the Islamic Economic System? Why this system is better than any other economic system.

**Ans:** **The Islamic Economic System**

The system of economy which is based upon the principles of Islam as stated in the Holy Quran and Sunnah is called as the Islamic Economic System. This system is blessed to the Muslims through the teachings of Allah in the Holy Quran. This system is collectively profitable because it is free from all debts.

### **The Islamic Economic System and Capitalism**

Capitalism and the Islamic Economic System both have some common features but actually they are different from each other. The principles of the Islamic Economic System have been derived from the teachings of the Holy Quran and Sunnah, while the principles of capitalism have been derived on the basis personal or group interest. The Islamic Economic System allows profit earning but upto a certain limit but capitalism is only based upon profit making without any limit. It is the reason that capitalists take advantages and earn more and more profit through their investments. The Islamic Economic System does not allow the concentration of wealth in few hands but capitalism encourages the prosperity of only capitalists. The Islamic Economic System strictly prohibits hoarding but capitalism takes hoarding as a factor of earning more profit in future. The Islamic Economic System is associated to the social welfare but capitalism only brings prosperity for the capitalists.

### **The Islamic Economic System and Socialism**

Socialism is the name of collective ownership of resources and the government plays a role of caretaking these resources for production. Though socialism has many similarities with the Islamic Economic System as about system stress upon the social welfare. However the Islamic Economic System has its own unique status and more effective than socialism. The Islamic Economic System is based upon the teachings of the Holy Quran and Sunnah while socialism is based upon the theory of collective ownership. The Islamic Economic System does not restrict on the right of private ownership while socialism strictly prohibits the right of private ownership on the productive means. The Islamic Economic System enforces a responsibility of every individual to use his skills and production for the welfare of common people but in socialism, the right of the ownership of all productive means is given to the government. The Islamic Economic System accepts the right of economic freedom and the choice of profession but in Socialism, this fundamental right of citizens is restricted as the government itself decides to provide employment according to skills, ability, technical efficiency of education of people.

### **Important Features or Characteristics of the Islamic Economic System**

Important features or characteristics of the Islamic Economic System can be described as following. These features of the Islamic Economic System prove its superiority on any other existing economic system.

#### **(i) Accountability**

The Islamic Economic System is based upon the teachings of the Holy Quran and Sunnah, so it enforces the responsibility to all individuals of adopting lawful means in the organization of economic activities. As the economic struggle is progressed with the co-operation of each other, so all members of an Islamic State are accountable to Almighty Allah for their actions and deeds on the day of judgment, so they should struggle for lawful earning and avoid





from illegal methods of economic struggle.

### (ii) **Collective Use of Natural Resources**

The Islamic Economic System gives a collective right to all existing natural resources, so these productive means should be used for the welfare of mankind. The owners should use their resources as the trust blessed to them by Allah. So the economic activities through the Islamic Economic System are associated with mutual cooperation and the welfare of the State.

### (iii) **Private Ownership and Economic Freedom**

The Islamic Economic System gives the right of private ownership and economic freedom to all individuals of the State. It accepts the right of lawful earned wealth, however it stresses the use of wealth for the social welfare through the payment of Zakat, Ushr, Sadqat etc.

### (iv) **Restrictions on Hoarding**

The Islamic Economic System and Islam strictly prohibit hoarding because hoarding is harmful for society. The Islamic Economic System totally discourages hoarding as it promotes greed of earning illegal profit.

### (v) **Restriction on Drugs and Narcotics Trade**

The use of drugs, narcotics and alcoholic beverages is restricted in Islam, so the Islamic Economic System does not allow to organize a business related to the buying and selling of drugs, narcotics and alcoholic beverages.

### (vi) **Economic Principles**

The economic principles which are enforced by means of the Islamic Economic System have the best moral standard as compared to that of all those principles adopted in other economic systems. The Islamic Economic System discourages luxuries, useless expenditure and hoarding and thus describes very effective and comprehensive principles for the production, consumption and distribution of wealth.

**Q.2** Which system of economy has been adopted in Pakistan? Describe the main features of this system of economy.

**Ans:** **The Economic System of Pakistan**

The System of Economy which has been adopted in Pakistan is called as the System of Mixed Economy. It is such an economic system which bears the factors and features of both capitalism and socialism simultaneously. The reasons for adopting this system of economy were following.

- (i) The industrial sector was not developed at the time of independence.
- (ii) The availability of capital was needed to be increased for the development of agricultural sector.
- (iii) The investment from the private sector was needed to be increased.

### **The Features or Characteristics of the System of Mixed Economy**

The important features or characteristics of the system of mixed economy can be described as following.

- (i) The System of Mixed Economy is beneficial. It is necessary for its successful implementation that the policies should be devised after removing the defects of both capitalism and socialism.
- (ii) The system of mixed economy is the sum of capitalism and socialism. The investment is done under this system from both in public and private sectors. Important public department remain under the control of the government. The resources of the government are increased through the implementation of this system.
- (iii) In the system of Mixed Economy, big business, production units, large industrial units and public utility institutions are nationalized. It increases the expenditures of the government. Besides this the government also achieves monopoly in the production of these units.



- (iv) In the system of Mixed Economy, the business system of a country is divided into two parts public sector and private sector. In public sector, the features are associated to socialism while in private sector, the features of capitalism are prominent. Investment is done in both private and public sectors, however private investment is restricted in public sector. The government, on the other hand can invest its capital for the progress and development of private sector.
- (v) Long-term economic planning is the distinctive feature of the system of Mixed Economy. The experts take a complete and overall review of the economy of the country and the targets are selected for the implementation of economic plans. This stable and effective economic planning helps in the progress and stability of the economy of a country.

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**IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)**

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) Islamic Law strictly prohibits:  
(a) Hoarding (b) Earning (c) Investment (d) Business
- (2) The principles of the Islamic Economic System have been derived from:  
(a) Socialism (b) Capitalism  
(c) The Holy Quran and Sunnah (d) Islamic Ideology
- (3) The Islamic Economic System promotes:  
(a) Hoarding (b) Interest (c) Lawful Earning (d) Monopoly
- (4) The Islamic Economic System gives assurance of providing equal opportunities of:  
(a) Stock building (b) Business Expansion  
(c) Employment (d) Wealth Accumulation
- (5) The Islamic Economic System stress upon adopting economic activities for:  
(a) The greed of profit (b) The lust for wealth  
(c) Capitalist's prosperity (d) Social welfare
- (6) The Islamic Economic System is based on the concept that Allah selected man as His:  
(a) Supporter (b) Caliph (c) Businessman (d) Capitalist
- (7) The Islamic Economic System discourages the use of:  
(a) Capital (b) Wealth (c) Luxuries (d) Finished goods
- (8) The Islamic Economic System is not associated with:  
(a) Investment (b) Interest (c) Profit (d) Rent
- (9) This kind of trade and business is not allowed by any means in the Islamic Economic System:  
(a) Banking Business (b) Drugs and Narcotics Trade  
(c) Wholesale Trade (d) Import Export Business
- (10) The Economic System which has been adopted in Pakistan is:  
(a) Capitalism (b) The System of Mixed Economy  
(c) Socialism (d) The Islamic Economic System





# CHAPTER 15

## ZAKAT, USHR AND TAX

### IMPORTANT SHORT QUESTIONS & ANSWERS

**Q.1** Write down any five objectives of Zakat.

**Ans:** Objectives of Zakat

Important objectives of Zakat are following.

- (i) Zakat gives a social protection to the poor, handicapped and helpless persons. Through Zakat they can fulfill their necessities in society.
- (ii) Islam allows saving but strictly prohibits the hoarding of wealth. Zakat abolishes the accumulation or concentration of wealth because the payment of Zakat is according to the wealth accumulated.
- (iii) Zakat is levied for a just distribution of wealth. Through the implementation of the system of Zakat distribution of wealth takes place among rich and poor. The poor get their due share from the wealth of the rich through Zakat.
- (iv) In the Islamic Economic System, Zakat is collected by the Bait-ul-Mal and then it is used for the better purposes. It may be used for the preaching of Islam, defence, help for needs and helpless persons and for the management of education and employment provision for the widows and the orphans.
- (v) As Zakat is used for the welfare of mankind, so it is the source of attaining the blessing of Almighty Allah.

**Q.2** Write down the exemptions of Zakat. Write down the people or things which are exempted from Zakat.

**Ans:** The Exemptions of Zakat

Following people are exempted from the payment of Zakat.

- (i) Zakat payment is not imposed on the property of non-adults or children.
- (ii) Mentally retarded persons are exempted from the payment of Zakat.
- (iii) The payment of Zakat is not imposed on slaves.
- (iv) The payment of Zakat is not imposed on food and clothing, residential house and all other domestic goods.

**Q.3** Write down five points on the economic importance and significance of Zakat.

**Ans:** Economic Importance and Significance of Zakat

The economic importance and significance of Zakat can be described as following.

- (i) The system of Zakat discourages the concentration of wealth, so it is helpful in the process of distribution of wealth.
- (ii) Zakat abolishes the class conflicts in a society because the poor, needy and helpless people are hopeful for bearing helped through Zakat.
- (iii) Zakat system also provides helps in bringing economic stability because it encourages the circulation of wealth.
- (iv) Zakat purifies the wealth on which it is paid, this concept stops the Muslim traders from being involved in anti social activities like hoarding, smuggling and black marketing.
- (v) Zakat provides social protection to needy, poor and helpless people. Zakat funds are also helpful in the establishment of different social welfare centres like hospitals, dispensaries, orphanages and handicrafts centres.





**Q.4** Give the rate of Ushr in the light of hadith.

**Ans: The Rate of Ushr**

The part of income which is levied like Zakat and is taken from the income of agricultural production is called as Ushr. The Prophet Hazrat Muhammad (S.A.W.) said:

"One-tenth of the produce has to be taken as Ushr from the lands irrigated by rainfall, river water and lake water and one-twentieth of the produce has to be taken as Ushr from the land irrigated by well."

(Hadith of Prophet S.A.W.)

**Q.5** Write down five conditions of Ushr is being imposed. (OR) Describe the conditions of imposing Ushr.

**Ans: The Conditions Imposing Ushr**

The conditions of imposing Ushr are following.

- (i) It is not necessary to be Sahib-e-Nisab for the payment of Ushr.
- (ii) The period of the payment of Ushr is not fixed like one year for the payment of Zakat. It is paid by the agriculturist after the cultivation of crops.
- (iii) Ushr is also imposed on the lands owned by non-adults and slaves.
- (iv) Ushr is also levied on the land under the ownership of a trust.
- (v) Ushr is also levied on Batai Lands, the lands whose production is divided between the landlords and the tenants. Ushr payment can be done in the form of money or commodities.

The government of Pakistan has fixed at rate of 5% of Ushr on the production from rainfall or canal irrigated lands. The government of Pakistan has also established many committees departments for the collection of Ushr.

**Q.6** Write down the Nisab Zakat and the Rate of Zakat.

**Ans: Nisab-e-Zakat**

A certain amount of cash money or valuable things on which the payment of Zakat is levied is called Nisab-e-Zakat.  $7\frac{1}{2}$  tolas of gold or  $52\frac{1}{2}$  tolas of silver or cash money or jewellery or other liquid assets to the equivalent value considered as Nisab-e-Zakat.

**The Rate of Zakat**

Zakat is to be paid from the exposed wealth at a prescribed rate of  $2\frac{1}{2}\%$  per annum. Zakat is also payable on such animals which are kept for commercial purposes. The rate of Zakat on animals is different. One goat from 40 - 120 goats two goats from 121 - 200 goats and 3 goats from 201 - 300 goats. One cow from each 40 cows. One camel from each 50 camels. The rate of Zakat has been fixed 20% on mineral resources like coal, petroleum, gas, iron ore, salt etc. only if they are mined under private ownership.

**Q.7** Write down the difference between Zakat and Ushr.

**Ans: Difference b/w Zakat and Ushr**

ZAKAT	USHR
(i) A religious obligation of the payment on certain amount at a fixed ratio for the help of needy people each year is called Zakat.	(i) A religious payment of the payment the share of agricultural produce after its cultivation is called Ushr.
(ii) Zakat is levied only on a Sahib-e-Nisab Muslim.	(ii) It is not necessary to be a Sahib-e-Nisab for the payment of Ushr.



(iii) The rate of Zakat is 2½% per annum on the fixed Nisab or more than that. The rate of Zakat is different on the animals for the commercial use. The rate of Zakat on minerals is 20% which are explored under private ownership.	(iii) The rate of Ushr is 10% from the agricultural produce on the land which is irrigated by natural resources and 5% on such agricultural produce which is irrigated by artificial means.
(iv) The payment of Zakat is not levied on the property of non-adults. Similarly the payment of Zakat is not necessary for slaves.	(iv) Ushr is levied on the agricultural produce from the cultivable lands of non-adults as well as owned by the slaves.
(v) The payment of Zakat becomes essential for a Sahib-e-Nisab Muslim after the period of one year.	(v) A particular period is not fixed for the payment of Ushr, it is paid after obtaining agricultural produce from a cultivable land.

**Q.8 Define Tax and describe briefly the kinds of Tax.**

**Ans: Tax**

A compulsory amount which is necessary to be paid from the individuals and business firms to the government, so the government could manage the examples for public welfare is called Tax.

### Kinds of Tax

There are two important kinds of Tax which are following.

#### **(i) Direct Tax**

A tax whose burden of the payment cannot be shifted to someone else and the same person has to pay it on which it is imposed is called as Direct Tax.

#### Example

Common examples of Direct Tax are following.

- (i) Income Tax      (ii) Wealth Tax      (iii) Property of Tax

#### **(ii) Indirect Tax**

A tax whose burden of the payment can be shifted to others is called Indirect Tax. This kind of tax is imposed many items again and again.

#### Examples

- (i) Sales Tax      (ii) Excise Duty      (iii) Duty Tax

**Q.9 Write down the point of difference between Zakat and Tax.**

**Ans: Difference between Zakat and Tax**

ZAKAT	TAX
(i) Zakat is a religious obligation of the Muslims and the payment of Zakat is helpful in pleasing Allah.	(i) The amount which is compulsory to be paid to the government so that the government could manage the expenses of public welfare is called Tax.
(ii) Zakat is levied on the annual savings of people.	(ii) Tax is imposed on the income of people per annum.
(iii) The rate of Zakat has been fixed for all time.	(iii) The rate of tax may be increased or decreased.
(iv) The payment of Zakat creates the passion of sympathy and brotherhood.	(iv) The payment of tax is helpful for the government to manage its expenses.



(v) The payment of Zakat cannot be exempted on a Sahib-e-Nisab Muslim.

(v) The payment of tax can be exempted under certain circumstances.

**Q.10** Write a note on Profit and Loss Sharing Account.

**Ans:** Profit and Loss Sharing Account

Islamic law prohibits the transaction based upon interest. At present the business based upon interest transaction has become very common even many of the Islamic States are doing the business based upon interest transaction through their banking system. In Pakistan the banks and other financial institutions were also engaged in the business based on interest. But after the enforcement of Islamic System in Pakistan, the Government of Pakistan introduced a system interest free banking on January 1, 1981. Now all the banks and other financial institutions in Pakistan do their business on the basis of profit and loss sharing. For this purpose an account is opened in banks on the basis of sharing in profit and loss which is called as Profit and Loss Sharing Account. When an account holder is equally responsible for profit and loss. In this case if he gains profit, then this amount is actually his profit not interest. Similarly if the bank or financial institution bears a loss then the account holder will have to bear this loss also according to the ratio of his deposited amount. Under this system the deposited amounts of the account holders will never be invested in any kinds of interest bearing business.

All Pakistani banks provide capital only for interest free business to different corporations like House Building Finance Corporation (HBFC), Pakistan Trading Corporation (PTC), Cotton Export Corporation (CEC), Utility Stores Corporation (USC) etc. All of these corporations are working for the development of interest free business day and night with the cooperation of banks. The better results are appearing for this work and it is hoped that the whole business system will be made interest free gradually in Pakistan. Interest free banking has now been enforced practically in Pakistan and has been appreciated and participated by public. Other Islamic countries are also looked willing for taking advantages from this experience. They often send their delegations to Pakistan to examine interest free banking system existed in Pakistan and then try to enforce it in their own states.





## IMPORTANT DETAILED TYPE QUESTIONS AND ANSWERS

**Q.1** What is the meaning of Zakat. Describe in detail the objectives and economic importance of Zakat.

**Ans: Zakat**

The literal meaning of Zakat is to purify and grow. Thus Zakat practically purifies the wealth collected by a person. On the basis of religious concept, Zakat means the compulsory payment which is levied on a Sahib-e-Nisab Muslim at a fixed rate each year.

### Nisab and Rate of Zakat

Zakat is levied on 52½ tolas of silver or 7½ tolas of gold or the same valued jewellery, trade goods, cash money and other assets, this called Nisab-e-Zakat. The rate of Zakat is 2½% on the fixed minimum Nisab or more than that.

### Economic Importance and Advantages of Zakat

Zakat is one of the pillars of Islamic faith. The importance of Zakat is cleared that in the Holy Quran where there is an order of saying prayer, the payment of Zakat is also be stressed along with it. The first caliph of the pious caliphate Hazrat Abu Bakr Siddique (R.A.) said just after taking the responsibility as caliph that if anyone has a responsibility of the payment of Zakat even it is equal to just a piece of a rope, it will be taken from him. He practically proved it by taking severe steps for the collection of Zakat. Economic importance and advantages of Zakat can be described as following.

- (i) Under every economic system, the society is divided into two classes of rich and poor. There is a great difference in the incomes of both, rich and poor. The system of Zakat in Islam eliminates this class difference, the rich themselves distribute 2.5% of their wealth among the needy, helpless and the poor, thus the distribution of wealth is justified.
- (ii) Some persons in a society are able, educated and technically trained but they are not able to start their work because of the deficiency of capital. Zakat provides them financial support, thus the system of Zakat is a source of ending the unemployment.
- (iii) Zakat is a source of social welfare. It is collected and distributed for the end of poverty in society. The amount collected through Zakat is used for providing help to the poor, needy, old, widows and orphans. Thus the system of Zakat gives protection to these helpless people in society.
- (iv) The concentration of wealth means to accumulate the wealth in a few hands. The capitalism earn limitless profit and thus accumulate wealth. Some part of this accumulated wealth, they use as capital for further production of wealth while the remaining they consume for their luxuries. On the other hand the poor remain deprived of the availability of fundamental necessities of life. This creates a disequilibrium in economy. This problem can be solved by the implementation of the system of Zakat effectively because through this system the capitalists have to pay 2.5% of their accumulated wealth as Zakat each year which is consumed for the help of needy and helpless people in society.
- (v) Through the effective implementation of the system of Zakat, people habitual of saving their money. They avoid useless expenditure and pay Zakat by taking it as their compulsory religious obligation. This system of Zakat is helpful in the circulation wealth.

### The Aims and Objectives of Zakat

Zakat is a kind of wealth tax which is imposed by Allah on us. System of Zakat is not only associated to social welfare but it is also helpful in acquiring economic stability. The main aims and objective of Zakat can be described as following.

- (i) Through an effective system of Zakat, a social protection is provided to the poor, needy, handicapped and helpless persons. They can fulfill their necessities in society.



- (ii) Islamic law gives permission for savings but strictly prohibits hoarding of wealth. An effective system of Zakat abolishes hoarding completely because the amount of Zakat will have to be paid more on the collection of much wealth.
- (iii) Zakat helps in the distribution of wealth in better and justified way. Under the implementation of an effective and just system Zakat, the rich will not become richer and the poor will not become poorer.
- (iv) Zakat is collected in Royal Treasury (Bait-ul-Maal) under the Islamic Economic System, therefore the amount collected through Zakat can be spent in better way. This amount can be spent for the preaching of Islam, defence, provision of financial help to needy, poor and helpless people, Training and treatment for widows and orphans and for the provision of employment to people.
- (v) As the amount collected through Zakat is consumed in serving humanity, therefore Zakat is considered as the best source of obtaining the blessing of Allah.

**Q.2** What is the meaning of Ushr. Write down the rate of Ushr in the light of hadith and also describe the conditions of imposing Ushr.

**Ans:** Ushr

The amount which is paid on the agriculture produce of the cultivable land is called Ushr. As there is a command of the payment of Zakat on gold, silver, commercial goods and cattle, similarly there is also a command of the payment of Ushr on agricultural produce. It is not necessary for the payment of Ushr at the end of the year but the payment of Ushr is compulsory on the cultivation of crop as many times during a year. It is just like Zakat and levied on land crops and it is taken from the harvested crop in the form of cash or any other kind.

### The Rate of the Ushr

Ushr is to be paid at a rate of 10% from the agricultural produce of the land which is irrigated by natural resources or rainfall. However it is 5% on such agricultural produce, which is irrigated by artificial means of irrigation like canals, karaz, tube wells etc. The Holy Prophet Hazrat Muhammad (Peace be upon him) himself fixed the rate of Ushr.

*"One-tenth of the produce has to be taken as Ushr from the lands irrigated by means of rainfall, river water and lakes water and one twentieth of the produce has to be taken as Ushr from the land irrigated by well."*  
(Hadith of Prophet S.A.W.)

The rent of land has no connection with Ushr as the rent is paid to the landlord for the use of his land while Ushr is a part of sadaqat, so if a Zakat payer is also the owner of cultivable land he is obliged to pay Ushr as well. Only those cultivable lands are exempted from the payment of Ushr which give agricultural produce than 940 kilogramme. Ushr is also imposed on the produced obtained from the forests.

### The Conditions of Imposing Ushr

Important conditions of imposing Ushr are following.

- (i) It is not necessary to be a Sahib-e-Nisab as Zakat for the payment of Ushr.
- (ii) There is no condition of the fixed period of passing one year for the payment of Ushr. It is levied on every harvesting crop during a year.
- (iii) Ushr is also taken from the cultivable lands owned by non-adults and slaves.
- (iv) The payment of Ushr is also necessary on such lands which are owned by a trust.
- (v) The lands whose produce is to be divided between the landlord and the tenant are called as "Batai Lands". Ushr is levied on all such lands.

Ushr can be paid in the form of cash or in the form of commodities. The government of Pakistan has fixed a rate 5% of receiving Ushr from rainfall irrigated lands or canal irrigated lands. The government has also established a number of committees and department for collecting Ushr. It is the duty of public to cooperate them.





**Q.3** Write a note on beneficiaries of Zakat. Describe in detail the expenditures of Zakat in the light of the teachings of the Holy Quran.

**Ans:** **Expenditures of Zakat**

The distribution of the amount collected through Zakat is called as Expenditures of Zakat and those people who have rights of receiving the amount of Zakat are called as Beneficiaries of Zakat. According to the Holy Quran Zakat can be distributed among the following beneficiaries. Allah says in the Holy Quran:

"Zakat is only for the paupers and the poor and those employed to collect and to attract the hearts of those who have been converted towards Islam; and for the captives; and for those in debt and for Mujahideen those are in fighting, and for the traveller who is cut from everything; it is a tax imposed by Allah and Allah is all-knower, Allah-wise.

(Surah Al-Taubah, Verse No. 60)

**(i) The Handicapped and Pauper**

Such people who have been very old and weak or they are handicapped and helpless in earning their livelihood by themselves are called as Pauper. As their capability of doing economic struggle has been ended, so it is necessary to help them through Zakat.

**(ii) The Poor**

Those people who are not Sahib-e-Nisab and weak economically passing their life hand to mouth within their limited income are called the poor. They are not able to acquire the necessities of life fully. As these people have very low standard of living and due to their worse economic condition they are not able to fulfill the basic necessities of life, so they have fully justified for the distribution of Zakat among them.

**(iii) Zakat Collectors**

Those who are appointed for the collection and distribution of Zakat and keep a full record of the collection and the distribution of Zakat are considered as Zakat Collectors. As they do labour in the work of the collection and distribution of Zakat, so their wages may be paid from Zakat funds even though they are Sahib-e-Nisab.

**(iv) For Winning Hearts of the Converters**

Those people who are non-Muslims but they have recently converted to Islam and facing the problems of economic struggle due to the opposition of their non-Muslim community have a right of receiving Zakat. Zakat can be distributed among them for winning their hearts.

**(v) Freedom of Slaves and War Prisoners**

Those people who are living as slaves and captives of war are also considered rightful in obtaining Zakat. Zakat can be spent to get them freed from their masters or enemies.

**(vi) The Debtors**

Those people who have taken a debt under the state of their extreme economic need and now they are not able to pay their loan because of their worse economic condition are called the debtors. They have a right to give them financial help in returning their loan from Zakat.

**(vii) In the Way of Allah**

Such actions and deeds which are done purely in the way of Allah are necessary to be supported economically through Zakat funds. So, the Mujahideen who are busy in fighting the Holy war purely for Allah may be supported from Zakat funds.

**(viii) Way Farer**

A traveller who has been a victim of economic worse condition at any other place away from his home is justified for obtaining Zakat even though he is rich and Sahib-e-Nisab at his home.

For the distribution of Zakat, first of all the close relatives are preferred then it is distributed among other people. The Zakat funds collected in a particular region commonly distributed among the beneficiaries of that region but if there are no beneficiaries then it may be distributed elsewhere.



## IMPORTANT MULTIPLE CHOICE QUESTIONS (MCQs)

**Q.1** Choose the correct answer for each of the following from the given options:

- (1) The rate of Zakat is: (a) 7.5% (b) 4.5% (c) 22.5% (d) 12.5%
- (2) Islamic Law strictly prohibits: (a) Earning (b) Distribution of Wealth (c) Production of Wealth (d) Hoarding of Wealth
- (3) In Pakistan, interest free banking was introduced in: (a) 1980 A.D. (b) 1981 A.D. (c) 1982 A.D. (d) 1983 A.D.
- (4) The Government of Pakistan has imposed the levy of Ushr on lands watered by rains in the percentage of: (a) 5% (b) 10% (c) 12% (d) 15%
- (5) Which one of the following is not a direct tax? (a) Income Tax (b) Sales Tax (c) Property of Tax (d) Wealth Tax
- (6) Which of the following is not an indirect tax? (a) Excise Duty (b) General Sales Tax (c) Custom Duty (d) Income Tax
- (7) It is the most common form of Direct Tax: (a) Sales Tax (b) Fees (c) Fine (d) Income Tax
- (8) It is the most common form of Indirect Tax: (a) Income Tax (b) Sales Tax (c) Wealth Tax (d) Property Tax
- (9) A Zakat payer must be a: (a) Poor Person (b) Handicapped Person (c) Sahib-e-Nisab (d) Needy Person
- (10) Profit and Loss Sharing Account in Pakistan was introduced in: (a) June 30, 1973 (b) August 14, 1978 (c) January 01, 1981 (d) March 23, 1990
- (11) The Muslim Caliph who made hard struggle for imposing the system of Zakat was: (a) Hazrat Abu Bakr R.A. (b) Hazrat Umar R.A. (c) Hazrat Usman R.A. (d) Hazrat Ali R.A.
- (12) It is considered as a kind of Charity or Sadqa: (a) Tax (b) Custom Duty (c) Zakat (d) Ushr
- (13) According to Hadith, the rate of Ushr on the lands irrigated by rains is: (a) One-fifth of the produce (b) One-ninth of the produce (c) One-tenth of the produce (d) One-twelfth of the produce
- (14) According to Hadith, the rate of Ushr on the lands irrigated by well is: (a) One-eleventh of the produce (b) One-twelfth of the produce (c) One-twentieth of the produce (d) One-sixth of the produce
- (15) Under the Islamic Economic System Zakat is collected in: (a) Bait-ul-Hikmat (b) Bait-ul-Ta'an (c) Bait-ul-Mal (d) Bait-ul-Khidmat
- (16) The land is exempted from Ushr if its produce is less than: (a) 1500kg (b) 2000kg (c) 2500kg (d) 940kg
- (17) The rate of Ushr on the land which is irrigated by natural resources like rain is: (a) 5% (b) 10% (c) 15% (d) 30%
- (18) The rate of Ushr on the land which is irrigated by artificial means is: (a) 5% (b) 10% (c) 20% (d) 30%
- (19) Ushr is also levied on the produce obtained from: (a) Cotton Mills (b) Mines (c) Forests (d) Cement Factories
- (20) The rate of Zakat on the minerals which are mined under private ownership is: (a) 2.5% (b) 10% (c) 20% (d) 25%

