

Final term Notes

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MCQs:

1. According to the passage, what is the interesting observation about Pakistan's GDP?
 - a) It is over-reported by as much as 40 per cent.
 - b) It is under-reported by as much as 40 per cent.
 - c) It is accurately reported without any discrepancy.
 - d) It is difficult to estimate accurately due to various factors.

Answer: b) It is under-reported by as much as 40 per cent.

2. In the context of the budget deficit, what does the passage suggest as the real concern?

- a) The size of the budget deficit as a percentage of the true GDP.
- b) The sustainability of the reported official figure of the budget deficit.
- c) The level of taxation in the country.
- d) The issue of spending and redistribution of public money.

Answer: d) The issue of spending and redistribution of public money.

3. According to Tables 11.5 and 11.6, what is the key concern regarding Pakistan's budget deficit and public spending?

- a) The contrast between defense and development expenditure.
- b) The lack of transparency in the budget allocation process.
- c) The high level of foreign debt compared to domestic debt.
- d) The inefficient tax collection system.

Answer: a) The contrast between defense and development expenditure.

4. What is one of the possible explanations for the increase in defense spending and the decrease in development expenditure in Pakistan?

- a) The lack of fiscal discipline during military rule.

- b) The corrupt practices of the civilian government.
- c) The military's direct control over the defence budget.
- d) The military's involvement in the civilian economy.

Answer: d) The military's involvement in the civilian economy.

5. According to the passage, what is the main issue with Pakistan's debt profile?

- a) The excessive external debt compared to internal debt.
- b) The inability to secure foreign loans from international institutions.
- c) The lack of fiscal space to address domestic debt issues.
- d) The persistent and unsustainable growth of both domestic and foreign debt.

Answer: d) The persistent and unsustainable growth of both domestic and foreign debt.

6. What does the passage suggest about the government's approach to handling the budget deficit?

- a) The government is focused on reducing non-capital expenditure.
- b) The government is trying to increase tax revenue through equitable measures.
- c) The government is reluctant to tax the wealthy agricultural lobby.
- d) The government relies heavily on IMF loans to finance the deficit.

Answer: d) The government relies heavily on IMF loans to finance the deficit.

7. According to the passage, why is the budget deficit in Pakistan considered a less critical issue than commonly believed?

- a) Pakistan's GDP is over-reported, making the budget deficit appear larger than it actually is.
- b) The IMF and World Bank have acknowledged that Pakistan's economy is robust and can handle the deficit.
- c) The real concern lies in how public money is spent and redistributed, rather than the deficit itself.
- d) The budget deficit is an abstract and arbitrary statistic that does not accurately reflect the economy's performance.

Answer: c) The real concern regarding the deficit is the issue of spending and redistribution. It is more important to ask questions about public money's use, funding, and management.

8. What is the key concern raised regarding the budget deficit and public spending in Pakistan?

- a) The lack of financial support from international organizations.
- b) The absence of fiscal policies to stimulate economic growth.

c) The disproportionate allocation of funds between defense expenditure and development expenditure.

d) The inability of the government to collect taxes effectively.

Answer: c) The key concern is the contrast in the patterns of defense expenditure and development expenditure, with defense spending outweighing development expenditure in Pakistan.

9. During which period did defense spending increase significantly compared to development expenditure in Pakistan?

a) 1980-1986

b) 1986-1993

c) 1995-2000

d) 2000-2005

Answer: b) 1986-1993

10. According to the passage, what is the main reason behind the high budget deficit in Pakistan?

a) Inflationary pressures resulting from excessive government spending.

b) Mismanagement of public funds and rampant corruption.

c) Lack of foreign aid and financial support from other countries.

d) The country's heavy dependence on defense expenditure.

Answer: b) Mismanagement of public funds and rampant corruption.

11. The Debt Reduction and Management Committee was established in Pakistan to address which debt-related issue?

- a) The excessive growth of foreign debt.
- b) The lack of access to loans from international financial institutions.
- c) The crisis caused by both domestic and foreign debts.
- d) The difficulty in attracting foreign investments.

Answer: c) The committee was established to tackle Pakistan's serious problem of external and internal debt, which had grown to a size greater than that of the GDP.

12. What did the Debt Reduction and Management Strategy (DRMS) report state about Pakistan's debt burden?

- a) Pakistan's debt burden is manageable and sustainable.
- b) The debt problem in Pakistan can be quickly resolved with targeted policies.
- c) The twin debt burden—domestic and external—is well beyond sustainable limits.
- d) External debt rescheduling has completely resolved Pakistan's debt crisis.

Answer: c) The DRMS report stated that Pakistan's twin debt burden—domestic as well as external—is 'well beyond sustainable limits'.

13. According to the passage, why does the government face challenges in raising additional revenue to cut the budget deficit?

- a) The tax system is riddled with inequities, and the wealthy are exempt from taxes.
- b) The government has imposed heavy taxes on agriculture, leading to widespread resentment.
- c) The IMF and World Bank loans do not provide enough financial support to cut the deficit effectively.
- d) The government's focus is on reducing expenditures rather than increasing revenue.

Answer: a) The tax system is riddled with inequities, with a large and wealthy section of society remaining exempt from taxes, and the government is loath to tax the wealthy agricultural lobby.

14. According to the passage, why is the budget deficit in Pakistan considered a controversial topic?

- a) It is difficult to calculate the true size of Pakistan's GDP accurately.
- b) The IMF and World Bank have conflicting views on its significance.
- c) Pakistan's economy has unique characteristics that challenge conventional economic frameworks.
- d) The government has been inconsistent in reporting budget deficit figures.

Answer: c) Pakistan's economy has unique characteristics that challenge conventional economic frameworks.

15. What is the author's main concern regarding the budget deficit in Pakistan?

- a) The level of external and internal debt.
- b) The sustainability of the deficit.
- c) The distribution and utilization of public expenditure.
- d) The role of military spending in the budget deficit.

Answer: c) The distribution and utilization of public expenditure.

16. According to Tables 11.5 and 11.6, what is the key concern regarding Pakistan's budget deficit and public spending?

- a) The excessive military spending compared to development expenditure.
- b) The lack of foreign aid and grants for development projects.
- c) The high level of borrowing from international financial institutions.
- d) The increase in public debt over the years.

Answer: a) The excessive military spending compared to development expenditure.

17. What do the tables suggest about the trend of defence spending in Pakistan during different periods?

- a) It has consistently decreased over the years.
- b) It increased significantly during military rule but decreased under democracy.
- c) It remained relatively stable throughout different periods.
- d) It has been the same as development expenditure throughout the years.

Answer: b) It increased significantly during military rule but decreased under democracy.

18. According to the passage, why does the government's obsession with reducing the budget deficit become problematic?

- a) It diverts attention from other critical economic issues.
- b) It leads to a decrease in public spending on development projects.
- c) It creates political instability and dissent in the country.
- d) It results in an increase in taxes for the wealthy agricultural lobby.

Answer: a) It diverts attention from other critical economic issues.

19. What does the Debt Reduction and Management Strategy (DRMS) report state about Pakistan's public debt?

- a) The debt is primarily caused by excessive military spending.
- b) There are no quick fixes to the debt problem.

c) The debt crisis is solely due to external borrowing. d) The debt has been consistently decreasing over the years.

Answer: b) There are no quick fixes to the debt problem.

20. Why is it challenging to raise additional revenue to reduce the budget deficit in Pakistan?

- a) The tax system is inefficient and discourages taxpayers.
- b) The wealthy agricultural lobby resists taxation on their incomes.
- c) The IMF and World Bank oppose raising additional revenue.
- d) The government is unable to implement structural reforms.

Answer: b) The wealthy agricultural lobby resists taxation on their incomes.

21. According to the given passage, which organizations ensure their longevity by supporting regimes that avoid making tough decisions?

- (a) The United Nations
- (b) The World Bank
- (c) The International Monetary Fund (IMF)
- (d) The World Trade Organization (WTO)

Answer: (b) The World Bank

22. The present government in Islamabad can secure another large IMF loan by doing what?

- (a) Lowering the budget deficit to 4% of GDR
- (b) Increasing the budget deficit to 4% of GDR
- (c) Reducing exports to increase revenue
- (d) Borrowing from non-IMF sources

Answer: (a) Lowering the budget deficit to 4% of GDR

23. According to the understanding of the DRMS, what triggered the debt crisis in the 1990s?

- (a) High inflation rates
- (b) Declining real government revenues
- (c) The unsustainability of current account balance of payments deficits
- (d) Overvalued currency exchange rates

Answer: (c) The unsustainability of current account balance of payments deficits

24. What percentage of GDP did Pakistan's total debt reach in 1998/9?

- (a) 100%
- (b) 40%
- (c) 55-60%
- (d) 10%

Answer: (a) 100%

25. What was the share of development in total government spending in 2000?

- (a) 40% (b) 25% (c) 13% (d) 50%

Answer: (c) 13%

26. What was the reason for the sharp increase in Pakistan's debt burden in the 1996-99 period?

- (a) High inflation
(b) Declining government revenues
(c) Increasing government spending on development projects
(d) Rising interest rates

Answer: (d) Rising interest rates

27. The real cost of domestic borrowing is calculated by:

- (a) Nominal interest rate + inflation rate
(b) Nominal interest rate - inflation rate
(c) Inflation rate - nominal interest rate
(d) Inflation rate + nominal interest rate

Answer: (b) Nominal interest rate - inflation rate

28. What is the key factor that ensures the longevity of organizations like the World Bank and the IMF?

- a) Lowering budget deficits
- b) Imposing tough decisions on governments
- c) Propping up regimes that cannot make tough decisions
- d) Reducing external debt

Answer: c) Propping up regimes that cannot make tough decisions

29. According to the given source, what percentage of GDP does the present government in Islamabad need to achieve in the budget deficit to secure another large IMF loan?

- a) 2%
- b) 4%
- c) 6%
- d) 8%

Answer: b) 4%

30. What is the main cause of Pakistan's debt problem, as argued by Pervez Hasan in "Pakistan's Economy at the Crossroads"?

- a) High growth rates in the 1980s
- b) Inefficient use of borrowed resources

- c) High spending during General Zia ul-Haq's government
- d) Declining real government revenues and exports

Answer: c) High spending during General Zia ul-Haq's government

31. What happened to the share of development in total government spending between 1980 and 2000, according to the DRMS?

- a) It increased from 40% to 50%.
- b) It remained constant at 25%.
- c) It declined from 40% to 13%.
- d) It doubled from 25% to 50%.

Answer: c) It declined from 40% to 13%.

32. According to the DRMS, what was the main trigger of the debt crisis in Pakistan in the 1990s?

- a) Large and persistent fiscal and current account deficits
- b) Imprudent use of borrowed resources
- c) Weakening debt carrying capacity in terms of stagnant government revenues
- d) High real cost of government borrowing

Answer: a) Large and persistent fiscal and current account deficits

33. What is the average real cost of external debt during the 1980s?

a) 3.4% per annum

b) 0.5% per annum

c) 25% per annum

d) 1.5% per annum

Answer: a) 3.4% per annum

34. During which period did the real cost of government domestic borrowing become negligible, moderating the growth in the burden of public debt?

a) 1980s

b) 1990-96

c) 1996-99

d) 1998-2000

Answer: b) 1990-96

35. What was the real cost of external borrowing during the period 1996-1999?

a) 5.4% per annum

b) 18% per annum

c) 34% per annum

d) 5.2% per annum

Answer: a) 5.4% per annum

36. What was the main reason for the increase in the government interest bill during 1987-88 and 1993-94?

a) High inflation rate

- b) Low nominal interest rates
- c) Financial sector liberalization
- d) Reduction in fiscal deficit

Answer: c) Financial sector liberalization

37. Why was the fiscal reform exercise in the 1990s considered self-defeating?

- a) It decreased import duties and increased direct taxes.
- b) It led to a decrease in the overall tax-to-GDP ratio.
- c) It increased the reliance on external financing.
- d) It increased the real cost of external debt.

Answer: b) It led to a decrease in the overall tax-to-GDP ratio.

38. What was the average annual nominal interest rate on external debt until recently?

- a) 3.4%
- b) 4%
- c) 11.5%
- d) 84%

Answer: b) 4%

39. What was the main impact of relying increasingly on short and medium-term debt?

- a) Increased borrowing costs
- b) Longer debt repayment periods

- c) Higher GDP growth
- d) Decreased interest payments

Answer: a) Increased borrowing costs

40. What was the net addition to Total Debt Outstanding in the period 1990-2000?

- a) \$15.451 billion
- b) \$36.677 billion
- c) \$3.66 billion
- d) \$7.827 billion

Answer: a) \$15.451 billion

41. What was the proportion of short and medium-term debt in 1998-99?

- a) 10%
- b) 22.2%
- c) 40.8%
- d) 5.7%

Answer: b) 22.2%

42. Why did the total debt servicing fall substantially in the last two fiscal years?

- a) Decrease in interest rates
- b) Debt rescheduling
- c) Increase in external borrowing
- d) Higher tax revenue

Answer: b) Debt rescheduling

43. What is the main concern with fiscal deficits in the context of Pakistan?

- A) They cause inflation

- B) They reduce public spending on essential services
- C) They lead to increased foreign aid
- D) They are not a concern as long as the money is spent wisely

Answer: B) They reduce public spending on essential services

44. Which of the following is NOT a reason for Pakistan's high and increasing debt burden?

- A) Decline in long-term capital inflows
- B) Increase in foreign exchange earnings
- C) Persistence of large non-interest current account deficits
- D) Lack of fiscal discipline

Answer: B) Increase in foreign exchange earnings

45. What is the main point made in Box 11.9?

- A) The loans taken by Pakistan's governments were fairly and honestly utilized.
- B) Civil society demands a write-off of Pakistan's foreign debt.
- C) Pakistan's civil society is donor-dependent and lacks political understanding.
- D) Foreign aid contributes to economic growth and poverty reduction in Pakistan.

Answer: C) Pakistan's civil society is donor-dependent and lacks political understanding.

46. What did the author suggest in Box 11.9 as a solution to Pakistan's debt problem?

- A) Debt write-off from donors
- B) Increased foreign aid
- C) Higher economic growth and better investments
- D) Accountability and holding governments and donors responsible for loan utilization

Answer: D) Accountability and holding governments and donors responsible for loan utilization

47. According to the data presented in Table 11.9, during which period did Pakistan experience the highest real cost of external debt?

- A) 1980s
- B) 1990-96
- C) 1996-99
- D) Data not provided

Answer: C) 1996-99

48. What is the main argument presented in the passage about Pakistan's debt situation?

- A) Pakistan is caught in a deep debt trap with no way out.
- B) Debt and deficits are beneficial for economic growth.
- C) Foreign aid has significantly improved Pakistan's economy.

D) IMF and World Bank loans have caused Pakistan's debt crisis.

Answer: A) Pakistan is caught in a deep debt trap with no way out.

49. Which factor did NOT contribute to Pakistan's high and increasing debt, according to Sakib Sherani?

A) Low savings rate

B) Political interference

C) Decline in long-term capital inflows

D) High growth rate of foreign exchange earnings

Answer: D) High growth rate of foreign exchange earnings

50. What is the main argument against the demand for debt write-off in Box 11.9?

A) Debt write-off would not significantly reduce Pakistan's debt burden.

B) Civil society should demand increased foreign aid instead.

C) Civil society organizations should become independent of donor funding.

D) Accountability and political understanding are more important than debt write-off.

Answer: D) Accountability and political understanding are more important than debt write-off.

51. What is the main concern presented by Aftab Ahmad Khan regarding the Pakistani economy?

- A) Excessive private investment
- B) Decline in foreign direct investment
- C) Large budgetary deficit
- D) Increasing trade surplus

Answer: C) Large budgetary deficit

52. During the period 1980/81-1991/92, what was the average annual consolidated fiscal deficit as a percentage of Gross Domestic Product (GDP) in Pakistan?

- A) 4%
- B) 5.7%
- C) 7.2%
- D) 8%

Answer: C) 7.2%

53. Which of the following is NOT a consequence of a large budgetary deficit according to the text?

- A) Financial instability
- B) Crowding out of private investment
- C) Decrease in inflationary expectations
- D) Large-scale capital flight

Answer: C) Decrease in inflationary expectations

54. What is the main reason for the high budgetary deficit in Pakistan, according to the text?

- A) Lack of foreign aid
- B) Weak tax administration and tax evasion
- C) Excessive defense spending
- D) Insufficient external borrowing

Answer: B) Weak tax administration and tax evasion

55. Which of the following is NOT mentioned as one of the methods used by Pakistan to finance the budget deficit?

- A) Domestic borrowing from non-bank sources
- B) External borrowing
- C) Printing more money (monetizing the deficit)
- D) Borrowing from international organizations like the World Bank

Answer: D) Borrowing from international organizations like the World Bank

56. How does domestic borrowing from non-bank sources affect the economy, according to the text?

- A) It leads to inflationary impact.
- B) It preserves domestic investment rates.
- C) It reduces the aggregate volume of assets in the banking system.
- D) It increases foreign investment.

Answer: B) It preserves domestic investment rates.

57. What the definition of a “sustainable deficit” is as mentioned in the text?

- A) A deficit that can be financed without any borrowing.
- B) A deficit that can be financed without adding to the country's overall debt burden as a proportion of GDP.
- C) A deficit that can be financed without any monetary policy intervention.
- D) A deficit that can be financed without any impact on the balance of payments.

Answer: B) A deficit that can be financed without adding to the country's overall debt burden as a proportion of GDP.

58. What is the potential consequence of a fiscal deficit exceeding 4 per cent of GDP, according to the International Monetary Fund and the Ministry of Finance?

- A) Increase in foreign direct investment
- B) Higher economic growth rate

- C) Adverse macro-economic consequences, including high inflation
- D) Decrease in interest rates

Answer: C) Adverse macro-economic consequences, including high inflation

59. How does a high level of government debt affect the demand for government debt, according to the text?

- A) It increases demand for government debt.
- B) It reduces demand for government debt.
- C) It has no impact on demand for government debt.
- D) It leads to a decline in interest rates.

Answer: B) It reduces demand for government debt.

60. What is the suggested solution for Pakistan to address the issue of a large budgetary deficit?

- A) Increase military spending
- B) Implement structural adjustment programs with assistance from the World Bank
- C) Monetize the deficit to collect a higher inflation tax
- D) Reduce the fiscal deficit to a sustainable level

Answer: D) Reduce the fiscal deficit to a sustainable level

61. What is the main focus of the article "Public Debt Reconsidered"?

- A) The need for reducing the fiscal deficit
- B) The importance of retiring all of Pakistan's debt
- C) The relationship between borrowing and growth
- D) The importance of productive government expenditure

Answer: D) The importance of productive government expenditure

62. According to the article, what is the current fiscal deficit estimated to be?

- A) 4 per cent of GDP
- B) 5.6 per cent of GDP
- C) 6.3 per cent of GDP
- D) 7.8 per cent of GDP

Answer: B) 5.6 per cent of GDP

63. What is the major concern regarding Pakistan's domestic debt?

- A) It has accumulated to more than Rs. 900 billion.
- B) It accounts for 46 per cent of GDP.
- C) It results in high interest payments and a large fiscal deficit.
- D) It consists of single-digit interest rates.

Answer: C) It results in high interest payments and a large fiscal deficit.

64. What is the suggested use of privatization proceeds, according to one view presented in "Debt Retirement is a Waste of Money"?

- A) To reduce foreign debt
- B) To retire domestic debt and reduce interest payments

- C) To increase development expenditure
- D) To invest in the social sector

Answer: B) To retire domestic debt and reduce interest payments

65. What is the estimated total domestic debt outstanding at the beginning of the current fiscal year 1994-95?

- A) Rs. 900 billion
- B) Rs. 102 billion
- C) Rs. 744 billion
- D) Rs. 85 billion

Answer: C) Rs. 744 billion

66. According to the article "Public Debt Reconsidered," what should be the minimum requirement for government expenditure?

- A) Increase in taxation
- B) Fiscal deficit reduction
- C) Productive use of expenditure
- D) Increased privatization

Answer: C) Productive use of expenditure

67. In the "Debt Retirement is a Waste of Money" article, what is the critical point that most observers have missed?

- A) The need to increase privatization proceeds
- B) The impossibility of reducing the fiscal deficit to 1 per cent of GDP
- C) The importance of reducing foreign debt
- D) The possibility of using privatization proceeds to retire all of Pakistan's debt

Answer: B) The impossibility of reducing the fiscal deficit to 1 per cent of GDP

68. How does the article "Public Debt Reconsidered" suggest dealing with the debt burden?

- A) Retire some of the debt using privatization proceeds
- B) Increase foreign borrowing to cover the fiscal deficit
- C) Raise taxes to decrease the fiscal deficit
- D) Focus on reducing the foreign debt

Answer: A) Retire some of the debt using privatization proceeds

69. What is the proposed fiscal deficit target by the IMF for Pakistan, according to the article "Public Debt Reconsidered"?

- A) 4 per cent of GDP
- B) 5.6 per cent of GDP
- C) 6.3 per cent of GDP
- D) 7.8 per cent of GDP

Answer: A) 4 per cent of GDP

70. Which of the following best defines decentralization?

- a) The concentration of power in the hands of the central government.
- b) The transfer of power and authority from the central government to lower levels of government.
- c) The concentration of power in the hands of local communities.
- d) The transfer of power and authority from lower levels of government to the central government.

Answer: b) The transfer of power and authority from the central government to lower levels of government.

71. Which military dictator in Pakistan introduced the Basic Democracies system in 1959?

- a) General Ayub Khan
- b) General Zia ul-Haq
- c) General Pervez Musharraf
- d) General Yahya Khan

Answer: a) General Ayub Khan

72. What was the main emphasis of the local government reforms introduced by General Zia ul-Haq?

- a) Strengthening local democratic institutions and empowering local communities.
- b) Concentrating power in the hands of the central government.
- c) Enhancing the autonomy of provincial governments.
- d) Providing greater representation to minority communities in local government.

Answer: b) Concentrating power in the hands of the central government.

73. Which of the following accurately describes the approach of elected governments in Pakistan towards local government reforms?

- a) They have consistently supported and strengthened local government institutions.
- b) They have undermined and weakened local government institutions.
- c) They have maintained the existing local government structures without major changes.
- d) They have introduced radical changes in local government systems.

Answer: b) They have undermined and weakened local government institutions.

74. What is the main focus of recent academic literature on decentralization in Pakistan?

- a) Administrative and managerial aspects of local government reform.
- b) Evaluating the effectiveness of different local government structures.
- c) Examining the political economy nature of decentralization, including issues of class and state.
- d) Identifying the financial challenges of local government institutions.

Answer: c) Examining the political economy nature of decentralization, including issues of class and state.

75. Which military government in Pakistan introduced the District Government system?

- a) General Ayub Khan
- b) General Zia ul-Haq
- c) General Pervez Musharraf
- d) General Yahya Khan

Answer: c) General Pervez Musharraf

76. What is the irony regarding local government reforms in Pakistan?

- a) Elected governments have consistently supported and strengthened local government institutions.
- b) Military governments have consistently supported and strengthened local government institutions.
- c) All elected governments have undermined and weakened local government institutions.
- d) All military governments have undermined and weakened local government institutions.

Answer: c) All elected governments have undermined and weakened local government institutions.

77. The political economy approach to decentralization in Pakistan emphasizes:

- a) Administrative and managerial aspects of local government reform.
- b) Evaluating the effectiveness of different local government structures.
- c) Examining the political and social changes in Pakistan between different sets of reforms.
- d) Examining the financial challenges of local government institutions.

Answer: c) Examining the political and social changes in Pakistan between different sets of reforms.

78. What was the main issue faced by the ruling groups of politicians and administrators in Pakistan after its independence in 1947?

- a) Lack of industry and middle class
- b) Ethnic tensions
- c) Religious conflicts
- d) Economic instability

Answer: a) Lack of industry and middle class

79. During the first decade of Pakistan's existence, which institution played the most significant role in the country's political landscape?

a) Judiciary

b) Bureaucracy

c) Parliament

d) Media

Answer: b) Bureaucracy

80. When was the Basic Democracies Order introduced in Pakistan?

a) 1958

b) 1959

c) 1960

d) 1967

Answer: b) 1959

81. What was the hierarchical structure of the local government under the Basic Democracies system?

a) Union Councils, Tehsil Councils, District Councils, Provincial Councils

b) Village Councils, Municipal Councils, Provincial Councils, National Councils

c) Union Councils, Town Committees, Tehsil Councils, District Councils

d) Village Councils, Town Committees, District Councils, National Councils

Answer: c) Union Councils, Town Committees, Tehsil Councils, District Councils

82. Who had the power to appoint the chairman of the Municipal Committee in the Basic Democracies system?

a) Directly elected members

- b) Provincial Governor
- c) Federal Prime Minister
- d) Government officials

Answer: d) Government officials

83. What role did the Basic Democracies system play in Pakistan's political landscape during General Ayub Khan's regime?

- a) It facilitated genuine democracy and representation.
- b) It served as a platform for local development and empowerment.
- c) It empowered the middle class and industrialists.
- d) It was used as a tool for consolidating military rule and power.

Answer: d) It was used as a tool for consolidating military rule and power.

84. What was the main criticism of the Basic Democracies system regarding its representation of the people?

- a) It provided direct control by the people over government power.
- b) It allowed citizens to elect the President directly.
- c) It only represented a limited form of democracy.

d) It was inclusive and represented all segments of society.

Answer: c) It only represented a limited form of democracy.

85. Which major sector witnessed phenomenal rates of growth and significant transformations during General Ayub Khan's regime?

a) Education

b) Healthcare

c) Agriculture

d) Information technology

Answer: c) Agriculture

86. What was one of the key underlying arguments in the analysis of the evolution of the local government system in Pakistan?

a) It was primarily driven by economic changes.

b) It was solely influenced by political changes.

c) It emerged as a result of both political and socio-economic changes.

d) It was designed to benefit the military-bureaucratic oligarchy.

Answer: c) It emerged as a result of both political and socio-economic changes.

87. What was the role of financial issues in the performance of local government in Pakistan?

a) Financial issues did not significantly impact local government performance.

- b) Adequate funds were available for efficient service delivery.
- c) The performance of local government was highly dependent on the availability of funds.
- d) Local governments were entirely self-sufficient and not reliant on funds.

Answer: c) The performance of local government was highly dependent on the availability of funds.

88. Which military government in Pakistan introduced the Local Government Ordinance (LGO) in 1979?

- a) Ayub Khan
- b) Yahya Khan
- c) Zulfikar Ali Bhutto
- d) Zia ul-Haq

Answer: d) Zia ul-Haq

89. What was the main difference between Pakistan in 1959 and 1979 regarding its territorial composition?

- a) Pakistan lost half of its territory in 1979.
- b) Pakistan gained territory from neighboring countries in 1979.
- c) Pakistan remained the same in terms of territory.
- d) Pakistan's territory doubled in 1979.

Answer: a) Pakistan lost half of its territory in 1979.

90. How did the Green Revolution impact agrarian structures in Pakistan?

- a) It strengthened feudal agrarian structures.
- b) It led to the emergence of modern capitalist relations of production.
- c) It resulted in the secession of East Pakistan.
- d) It weakened the middle-class political actors.

Answer: b) It led to the emergence of modern capitalist relations of production.

91. Which levels of municipal government existed in urban areas under the Local Government Ordinance of 1979?

- a) Union Councils, Tehsil Councils, and District Councils
- b) Town Committees, Municipal Committees, Municipal Corporations, and Metropolitan Corporations
- c) City Councils, Province Councils, and Federal Councils
- d) Ward Committees, Borough Councils, and City Councils

Answer: b) Town Committees, Municipal Committees, Municipal Corporations, and Metropolitan Corporations

92. What was the main challenge faced by local governments in delivering services in Pakistan during the 1980s and 1990s?

- a) Lack of financial resources
- b) Limited public participation
- c) Political interference
- d) Insufficient staff skills

Answer: a) Lack of financial resources

93. When was the Local Government Ordinance (LGO) of 1979 promulgated?

- A) 1959
- B) 1960
- C) 1979
- D) 1980

Answer: C) 1979

94. The Local Government Ordinance of 1979 aimed to revive what aspect of governance?

- A) Political centralization at the federal level
- B) Political representation at the local level
- C) Military rule at the provincial level
- D) Bureaucratic control at the municipal level

Answer: B) Political representation at the local level

95. What was the most significant difference between Pakistan in 1959 and 1979?

- A) Population size
- B) Urbanization level
- C) Economic structure
- D) Political stability

Answer: B) Urbanization level

96. The Local Government Ordinance specified two sets of functions to be performed by local governments. What were they?

- A) Administrative and financial functions
- B) Regulatory and developmental functions
- C) Compulsory and optional functions
- D) Federal and provincial functions

Answer: C) Compulsory and optional functions

97. How many tiers of local government were there in rural areas under the Local Government Ordinance of 1979?

- A) One
- B) Two
- C) Three
- D) Four

Answer: B) Two

98. Which provinces in Pakistan implemented the Local Government Ordinance of 1979?

- A) Punjab, Sindh, and Balochistan
- B) Punjab, Sindh, and Khyber Pakhtunkhwa (NWFP)
- C) Sindh, Balochistan, and Khyber Pakhtunkhwa (NWFP)
- D) Punjab, Sindh, Balochistan, and Khyber Pakhtunkhwa (NWFP)

Answer: A) Punjab, Sindh, and Balochistan

99. What was the primary criterion for determining the municipal status of an urban settlement?

- A) Economic development
- B) Industrialization level
- C) Population size
- D) Administrative capacity

Answer: C) Population size

100. What were the three basic compulsory services carried out by urban local councils?

- A) Education, health, and sanitation
- B) Garbage disposal, road maintenance, and street lighting
- C) Water supply, welfare, and public works

D) Security, transport, and community development

Answer: B) Garbage disposal, road maintenance, and street lighting

101. What role did Union Councils play in the development and maintenance of services in rural areas?

A) Comprehensive service providers

B) Limited or no role in service delivery

C) Administrative and financial oversight

D) Promotion of agriculture and industry

Answer: B) Limited or no role in service delivery

102. What proportion of overall local government seats in Pakistan was held by rural local councils?

A) 68%

B) 79%

C) 84%

D) 89%

Answer: A) 68%

103. During the Zia ul-Haq regime in Pakistan, which of the following elections were held on a non-party basis?

a) National Assemblies elections

b) Provincial Assemblies elections

c) Local Bodies elections

d) Presidential elections

Answer: c) Local Bodies elections

104. Which of the following was NOT a result of the Local Bodies elections held during the Zia ul-Haq regime in Pakistan?

a) Political emergence of the middle class

b) Centralization of power in the military

c) Political consolidation of the ruling party

d) Economic transformation at the local level

Answer: c) Political consolidation of the ruling party

105. According to the passage, what were the main beneficiaries of the Zia regime in Pakistan?

a) Industrialists and large landowners

b) Rural and urban middle classes

c) Religious minorities and women

d) Military and civil bureaucracy

Answer: b) Rural and urban middle classes

106. What significant political event took place in Pakistan in 1985 under the Zia ul-Haq regime?

- a) Introduction of real elections to Provincial and National Assemblies
- b) Introduction of the Devolution Plan
- c) Local Bodies elections were made party-based
- d) Emergence of the Pakistan People's Party

Answer: a) Introduction of real elections to Provincial and National Assemblies

107. In which year were local governments dissolved in Pakistan after the return of democracy in 1988?

- a) 1990
- b) 1992
- c) 1993
- d) 1995

Answer: c) 1993

108. The Devolution Plan and the new system of District Government were initiated in Pakistan during the regime of which military ruler?

- a) Ayub Khan
- b) Zia ul-Haq
- c) Pervez Musharraf
- d) Yahya Khan

Answer: c) Pervez Musharraf

109. What was the highest and most important entity in the new structure of district government under the Devolution Plan?

- a) Tehsil Council
- b) Union Council
- c) Zila Nazim
- d) District Council

Answer: d) District Council

110. Which department was NOT mentioned in the passage as being devolved to the districts under the Devolution Plan?

- a) Health
- b) Education
- c) Agriculture
- d) Urban Planning

Answer: c) Agriculture

111. Which form of local government was implemented in Pakistan by General Pervez Musharraf?

- a) Basic Democracies
- b) Local Bodies
- c) District Government
- d) Municipal Corporation

Answer: c) District Government

112. The District Government system in Pakistan aimed to devolve certain functions related to the delivery of social services from provincial to district level.

Which of the following was not one of the devolved functions?

- a) Education policy implementation
- b) Health service delivery
- c) Development plans preparation
- d) Annual federal budget preparation

Answer: d) Annual federal budget preparation

113. What percentage of seats in District Governments were reserved for women under the District Government system introduced by General Musharraf?

- a) 10%
- b) 25%
- c) 33%
- d) 50%

Answer: c) 33%

114. Which of the following statements about the Citizen Community Boards (CCBs) is true?

- a) CCBs were fully functional in all areas.
- b) CCBs raised funds through mandatory taxes.
- c) CCBs were non-existent in most districts.

d) CCBs were established to oversee provincial government functions.

Answer: c) CCBs were non-existent in most districts.

115. The Legal Framework Ordinance (LFO) was responsible for disrupting the elected Parliament for more than fifteen months after which general elections?

a) 1998 General Elections

b) 2002 General Elections

c) 2008 General Elections

d) 2013 General Elections

Answer: b) 2002 General Elections

116. Which of the following was one of the major changes introduced by the Local Government Ordinance (LGO) 2001 in Pakistan?

a) Increased centralization of power at the federal level

b) Establishment of the Provincial Finance Commission (PFC)

c) Abolishment of local taxes and transfer of financial power to the federal government

d) Complete dismantling of local government structures

Answer: b) Establishment of the Provincial Finance Commission (PFC)

117. Under the Local Government Ordinance (LGO) 2001, what was the primary means of transferring revenues from provincial to local governments?

a) Direct payments by citizens to local governments

- b) Block grants provided by the federal government
- c) Formula-driven fiscal transfers through the Provincial Finance Commission (PFC)
- d) Loans and grants from international donors

Answer: c) Formula-driven fiscal transfers through the Provincial Finance Commission (PFC)

118. What percentage of revenue generated by local governments under the 1979 Local Government System was contributed by taxes?

- a) 10%
- b) 25%
- c) 50%
- d) 60%

Answer: c) 50%

119. The Local Government Ordinance (LGO) 2001 assigned different responsibilities for social and human development services and municipal services to different levels of local governments. Where were social and human development services expected to be delivered?

- a) At the federal level
- b) At the provincial level
- c) At the district level
- d) At the union council level

Answer: c) At the district level

120. Which of the following was one of the new taxes introduced for local governments under the Local Government Ordinance (LGO) 2001?

- a) Property tax on annual rental value of buildings and lands
- b) Fee on sale of animals in cattle markets
- c) Toll tax on roads, bridges, and ferries
- d) Tax on advertisements

Answer: b) Fee on sale of animals in cattle markets

121. What was the primary objective of the Devolution Plan 2000 implemented by the military government in Pakistan?

- a) To centralize power in the federal government
- b) To empower citizens through local governments
- c) To strengthen provincial governments
- d) To privatize public services

Answer: b) To empower citizens through local governments

122. According to the new development planning system introduced under the Devolution Plan 2000, who was responsible for the consolidation and coordination of the development budget at the district government level?

- a) Tehsil Officer for Planning
- b) Citizen Community Board
- c) Executive District Officer for Finance and Planning

d) Zila Nazim

Answer: c) Executive District Officer for Finance and Planning

123. What percentage of development funds were supposed to be spent through Citizen Community Boards under the new local government system?

a) 10%

b) 25%

c) 50%

d) 75%

Answer: b) 25%

124. Which of the following was NOT one of the responsibilities of the District Government under the Devolution Plan 2000?

a) Education

b) Health

c) Fire services

d) Cultural and sport services

Answer: c) Fire services

125. Which of the following was NOT identified as a problem in the new local government system by the ADB/DFID/WB study?

a) Lack of autonomy for local governments in preparing their budgets

b) Weak control of district officials over staff numbers

c) Strong collaboration between local and provincial governments

d) Limited capacity of local governments to raise own-source revenues

Answer: c) Strong collaboration between local and provincial governments

126. What was the major criticism of the local government system implemented under the military government?

- a) It led to excessive decentralization of power
- b) It failed to provide sufficient funds to local governments
- c) It was too politically influenced and manipulated
- d) It focused too much on urban development at the expense of rural areas

Answer: c) It was too politically influenced and manipulated

127. What was the primary criticism of the local government system during the floods in 2010 and 2011?

- a) Lack of coordination between federal and provincial governments
- b) Absence of elected local governments at the time
- c) Insufficient funds allocated for disaster relief
- d) Failure to involve international aid organizations

Answer: b) Absence of elected local governments at the time

128. What was the primary role of most urban local councils prior to 2000?

- a) Providing essential services
- b) Developing infrastructure projects
- c) Generating additional sources of income
- d) Performing compulsory functions

Answer: d) Performing compulsory functions

129. In which areas did urban local governments face severe financial constraints?

- a) Education and health
- b) Water supply and sanitation
- c) Roads and drainage
- d) All of the above

Answer: d) All of the above

130. Why did smaller towns and cities lack the capability to provide essential services?

- a) Lack of technical and administrative capabilities
- b) Insufficient staff to undertake development works

- c) Lack of funds for operation and maintenance costs
- d) All of the above

Answer: d) All of the above

131. What was the major hindrance to the provision of services and facilities in cities?

- a) Lack of statutory limitations
- b) Political constraints
- c) Financial constraints
- d) Lack of public interest

Answer: c) Financial constraints

132. Why did local bodies have little incentive to generate additional sources of income?

- a) Lack of skilled personnel
- b) Weak link between service provision and local taxation
- c) Opposition from the provincial government
- d) Lack of public support

Answer: b) Weak link between service provision and local taxation

133. What does the author argue about the existing structure of local government in Pakistan?

- a) It has been successful in providing services and facilities.
- b) It is inefficient and ineffective due to its financial constraints.
- c) It is fully supported by all tiers of government.
- d) It has resulted in significant development at the grassroots level.

Answer: b) It is inefficient and ineffective due to its financial constraints.

134. How many substantive interventions in decentralization and devolution have occurred in Pakistan since 1947?

- a) One
- b) Two
- c) Three
- d) Four

Answer: c) Three

135. When the existing three-tier local governance system in Pakistan was formally launched?

- a) 1947
- b) 1970
- c) 1999
- d) 2001

Answer: d) 2001

136. What is the legal basis for local governments in Pakistan?

- a) Article 32 of the Constitution
- b) Article 140-A of the Constitution
- c) Local Government Ordinances
- d) All of the above

Answer: d) All of the above

137. What major structural change was introduced in the local governance system in 2005?

- a) The establishment of Divisions
- b) Increased power for district governments
- c) The formation of a two-tier system
- d) The abolition of provincial governments

Answer: b) Increased power for district governments

138. What was the key role of the Union Council in the local government system in Pakistan?

- a) To conduct direct elections for the top slots
- b) To provide Electoral College for upper tiers

c) To oversee the functioning of the district police

d) To issue birth and death certificates

Answer: b) To provide Electoral College for upper tiers

139. What is one major criticism of the 2001 local government system in Pakistan?

a) Lack of constitutional protection

b) Excessive financial autonomy for local governments

c) Ineffective monitoring mechanism d

) Inclusion of women in the local government system

Answer: c) Ineffective monitoring mechanism

140. What is the political significance of local governments in Pakistan?

a) Nurseries for grooming political cadre

b) Limited to municipal administrative tasks

c) Control over police and administration

d) Dominated by traditional landlord gentry

Answer: a) Nurseries for grooming political cadre

141. How was the 2001 local government system different from the 1979 system?

- a) It extended tehsil municipal administration to rural areas
- b) It consolidated power in the hands of big landlords
- c) It provided development funds to local councils
- d) It lacked constitutional protection

Answer: a) It extended tehsil municipal administration to rural areas

142. Why did the bureaucracy resist the full implementation of the 2001 local government system?

- a) It was heavily centralized at the provincial level
- b) It lacked financial autonomy for local councils
- c) It provided minimal powers to district nazims over police
- d) It increased bureaucratic control over local governments

Answer: c) It provided minimal powers to district nazims over police

143. What impact did the 2001 local government system have on the political influence of the middle class?

- a) It provided greater opportunities for political participation

- b) It marginalized them from the political process
- c) It restricted their access to political party tickets
- d) It led to widespread corruption in local governments

Answer: a) It provided greater opportunities for political participation

144. What is one major flaw in the 2001 local government system?

- a) Lack of financial autonomy for local councils
- b) Overwhelming bureaucracy at the district level
- c) Insufficient representation for women
- d) Inability to deal with law and order issues

Answer: b) Overwhelming bureaucracy at the district level

145. According to Aoun Sahi, why is PML-N keen to abolish the 2001 local government system?

- a) It favors the appointment of non-political administrators
- b) It trusts bureaucracy more than public representatives
- c) It believes the system is corrupt and nepotistic
- d) It aims to strengthen the hold of big landlords

Answer: b) It trusts bureaucracy more than public representatives

146. Who initiated the Devolution of Power Plan 2000 in Pakistan?

- a) Benazir Bhutto
- b) Nawaz Sharif
- c) Pervez Musharraf
- d) Imran Khan

Answer: c) Pervez Musharraf

147. How much quota for women was adopted at the District, Tehsil, and Union council levels under the Local Government Ordinance (LGO) in Pakistan?

- a) 10%
- b) 20%
- c) 33%
- d) 50%

Answer: c) 33%

148. In which region of Pakistan did former president Clinton meet village women elected representatives discussing democracy and power?

- a) Sindh
- b) Punjab
- c) Khyber Pakhtunkhwa
- d) Rajasthan

Answer: d) Rajasthan

149. Who was the District Councilor from Peshawar who initiated developmental projects like making roads and installing tube wells?

- a) Shamim Qaiser
- b) Shamim Mumtaz

c) Farzana Mumtaz

d) Aurat Foundation

Answer: a) Shamim Qaiser

150. Which act in British India allocated irrigation and land revenue, forestry, and judicial stamp duties to the provinces?

a) Government of India Act, 1885

b) Government of India Act, 1919

c) Government of India Act, 1935

d) Montagu-Chelmsford Proposal

Answer: b) Government of India Act, 1919

151. The dismissal of the Constituent Assembly by Governor General Ghulam Muhammad in the Maulvi Tamizuddin vs the Federation of Pakistan case set a precedent for:

a) Promoting democratic values in Pakistan

b) Abrogating the Constitution in the future

c) Upholding the principles of good governance

d) Establishing strong state institutions

Answer: b) Abrogating the Constitution in the future

152. The only judge who wrote a dissenting note in the landmark decision of the Maulvi Tamizuddin vs Federation of Pakistan case was:

- a) Governor General Ghulam Muhammad
- b) Justice A. R. Cornelius
- c) Maulvi Tamizuddin
- d) Prime Minister of Pakistan

Answer: b) Justice A. R. Cornelius

153. The National Finance Commission (NFC) of Pakistan is responsible for:

- a) Maintaining law and order in the country
- b) Advising the President on the distribution of resources from the divisible pool
- c) Managing the national budget
- d) Implementing foreign policy

Answer: b) Advising the President on the distribution of resources from the divisible pool

154. The primary source of intergovernmental fiscal transfers in Pakistan is:

- a) Direct taxes collected by the provinces
- b) Grants from foreign countries

- c) Transfers from the federal government to provinces
- d) Donations from the private sector

Answer: c) Transfers from the federal government to provinces

155. The size of the divisible pool available for the provinces has considerably increased after which NFC Award?

- a) NFC Award 1970
- b) NFC Award 1990
- c) NFC Award 2006
- d) NFC Award 2010

Answer: d) NFC Award 2010

156. The formula used for horizontal revenue distribution in the Riesman Award 1951 was primarily based on:

- a) Population of the provinces
- b) Pre-assigned shares
- c) Poverty and backwardness
- d) Revenue collection and generation

Answer: b) Pre-assigned shares

157. The National Finance Commission Award 1964 increased the vertical sharing between federation and provinces to what percentage?

a) 50%

b) 60%

c) 65%

d) 80%

Answer: c) 65%

158. The National Finance Committee 1970 increased the vertical sharing between federation and provinces to what percentage?

a) 50%

b) 60%

c) 65%

d) 80%

Answer: d) 80%

159. What was the outcome of the election held in 1970?

a) The Awami League won a majority in West Pakistan.

b) The PPP won a majority in East Pakistan.

c) The Awami League won a majority in East Pakistan.

d) The PPP won a majority in West Pakistan.

Answer: c) The Awami League won a majority in East Pakistan.

160. What event led to the creation of Bangladesh in 1971?

a) The dismissal of the Prime Minister

b) The formation of the National Finance Commission

c) The independence of East Pakistan from Pakistan

d) The implementation of the 18th Amendment

Answer: c) The independence of East Pakistan from Pakistan

161. What was the major change introduced by the National Finance Commission Award of 1974 in Pakistan?

- a) Introduction of new taxes in the federal divisible pool
- b) Change in the vertical revenue sharing ratio
- c) Population-based criterion for horizontal distribution
- d) Imposition of borrowing limits on provinces and federation

Answer: c) Population-based criterion for horizontal distribution

162. Which of the following was NOT covered under the mandate of the National Finance Commission Awards but received special grants?

- a) Punjab
- b) NWFP
- c) FATA
- d) Balochistan

Answer: c) FATA

163. The dominance of Punjab in fiscal matters during the 1970s was partly attributed to:

- a) Larger representation in the Senate
- b) Higher revenue generation

- c) Population-based distribution
- d) Greater representation in the National Assembly

Answer: c) Population-based distribution

164. The vertical revenue sharing ratio between the federation and provinces remained constant at:

- a) 70:30 b) 80:20 c) 60:40 d) 50:50

Answer: b) 80:20

165. The National Finance Commission Award of 1990 introduced excise duties on which of the following products to increase the divisible pool?

- a) Textiles b) Petroleum
- c) Telecommunications d) Tobacco

Answer: d) Tobacco

166. The National Finance Commission Award of 1990 introduced a revenue transfer system called 'straight transfer,' which means:

- a) Federal government directly transfers funds to provinces' accounts
- b) Provinces share revenues equally with the federal government
- c) Indirect taxes are shared directly with provinces

d) Only natural resources-based revenues are shared with provinces

Answer: a) Federal government directly transfers funds to provinces' accounts

167. The National Finance Commission Award of 1997 was instituted during the second term of which Prime Minister?

a) Zulfikar Ali Bhutto

b) Nawaz Sharif

c) Benazir Bhutto

d) Pervez Musharraf

Answer: c) Benazir Bhutto

168. The main purpose of the National Finance Commission Awards was to address issues related to:

a) Military expenditures

b) Intergovernmental fiscal relations

c) Foreign trade policies

d) Energy production

Answer: b) Intergovernmental fiscal relations

169. The National Finance Commission Award of 1985 was unique in history because:

a) It introduced a new vertical revenue sharing ratio b) It was never announced officially

c) It included all provinces of Pakistan

d) It focused exclusively on infrastructure development

Answer: b) It was never announced officially

170. Which principle was used to determine the distribution of gas development surcharge and hydro-electricity profits to provinces?

- a) Population-based
- b) Location-based
- c) Production-based
- d) Consumption-based

Answer: c) Production-based

171. Which year marked the first National Finance Commission (NFC) Award in Pakistan?

- a) 1971
- b) 1980
- c) 1990
- d) 2000

Answer: c) 1990

172. What was the main reason for the expansion of the divisible pool in the 1990 NFC Award?

- a) Inclusion of all taxes, including custom duties
- b) Increase in federal tax revenues
- c) Exemption of provincial taxes
- d) Reduction of federal taxes

Answer: a) Inclusion of all taxes, including custom duties

173. How did the vertical share of provinces change in the 1990 NFC Award compared to the earlier Award?

- a) Increased by 10%
- b) Decreased by 42.5%
- c) Remained unchanged
- d) Increased by 5%

Answer: b) Decreased by 42.5%

174. Which province demanded a minimum guaranteed share of 50% in the federal divisible pool during the 2006 NFC Award discussions?

- a) Punjab
- b) Sindh
- c) KPK
- d) Balochistan

Answer: b) Sindh

175. What percentage of the net proceeds of divisible pool taxes was assigned to Khyber Pakhtunkhwa (KPK) in the 2010 NFC Award?

- a) 2%
- b) 5%
- c) 10%
- d) 1%

Answer: d) 1%

176. In the 2010 NFC Award, which criterion was introduced to distribute divisible pool resources among provinces?

- a) Population alone
- b) Population and area combined

- c) Revenue distribution based on multiple criteria
- d) Economic growth rate

Answer: c) Revenue distribution based on multiple criteria

177. Which province experienced the highest increase in its share due to the introduction of multiple criteria in the 2010 NFC Award?

- a) Punjab
- b) Sindh
- c) KPK
- d) Balochistan

Answer: d) Balochistan

178. What did President Zardari constitute in 2009 to rationalize fiscal federalism in Pakistan?

- a) National Budget Committee
- b) National Economic Council
- c) National Finance Commission
- d) Federal Fiscal Council

Answer: c) National Finance Commission

179. What percentage of the divisible pool is allocated to provinces under the 2010 NFC Award?

- a) 50%
- b) 57.5%
- c) 42.5%
- d) 75%

Answer: b) 57.5%

180. What is the main criticism associated with the new fiscal federalism introduced through the NFC Awards in Pakistan?

- a) Overemphasis on development expenditure
- b) Inequitable distribution of resources
- c) Excessive centralization of fiscal powers
- d) Lack of transparency in revenue distribution

Answer: b) Inequitable distribution of resources

181. What is the primary focus of Sakib Sherani's analysis in the given text?

- a) Poverty reduction
- b) Fiscal deficits
- c) Provincial autonomy
- d) Education reform

Answer: c) Provincial autonomy

182. The 18th Amendment to the constitution of Pakistan resulted in:

- a) A decrease in provincial autonomy
- b) Centralization of fiscal powers
- c) A layer of complexity and challenge for governance and fiscal framework
- d) Increased federal budget allocation for provinces

Answer: c) A layer of complexity and challenge for governance and fiscal framework

183. **The seventh NFC Award aimed to finance increased resource transfers to provinces through:**

- a) Introduction of an integrated VAT and reduced federal expenditures
- b) Introduction of an integrated VAT and increased federal expenditures
- c) Reduction of resource transfers to provinces
- d) Increase in federal tax rates

Answer: a) Introduction of an integrated VAT and reduced federal expenditures

184. **What has been the outcome of the devolution exercise concerning the transfer of expenditures to provinces?**

- a) Provinces have taken on the full burden of expenditures as planned.
- b) Provinces have refused to take on any additional expenditures.
- c) Provinces have taken on a significantly reduced amount of expenditures.
- d) Provinces have taken on the exact amount of expenditures planned.

Answer: c) Provinces have taken on a significantly reduced amount of expenditures.

185. **According to the author, what could be a potential consequence of the lack of fiscal effort and preparation by provinces?**

- a) A decrease in the federal budget deficit
- b) A temporary fiscal deficit
- c) A structural fiscal deficit
- d) An increase in federal budget allocation to provinces

Answer: c) A structural fiscal deficit

186. **What impact could the lack of financing key devolved functions have on service delivery?**

- a) Improvement in service delivery
- b) Collapse of service delivery
- c) No impact on service delivery
- d) Reduced federal budget deficit

Answer: b) Collapse of service delivery

187. **In the context of the NFC transfers, what is "structural" fiscal deficit?**

- a) A deficit that is easily manageable
- b) A deficit related to provincial capacities
- c) A deficit that results from federal budget constraints
- d) A deficit that persists due to lack of fiscal effort and preparation

Answer: d) A deficit that persists due to lack of fiscal effort and preparation

188. **Which of the following is NOT a recommendation proposed by the author to address the fiscal challenges?**

- a) Synchronizing government budgets at the level of the Council of Common Interests (CCI)
- b) Imposing higher taxes on the provinces
- c) Considering a standstill agreement on NFC transfers
- d) Having provincial legislatures pass Fiscal Responsibility and Debt Limitation laws

Answer: b) Imposing higher taxes on the provinces

189. **What is the purpose of equalizing federal transfers to provincial governments?**

- a) Increasing fiscal deficits
- b) Encouraging competition among provinces

- c) Providing public goods and reducing disparities
- d) Limiting provincial autonomy

Answer: c) Providing public goods and reducing disparities

190. What criteria does the NFC 2010 Award lay down for the distribution of a portion of the divisible pool?

- a) Population share
- b) Poverty and backwardness
- c) Industrial development
- d) Urbanization rate

Answer: b) Poverty and backwardness

191. What is the term used to describe the mismatch between the revenue and expenditures of a government?

- A) Fiscal deficit
- B) Vertical fiscal imbalance
- C) Horizontal fiscal imbalance
- D) Income disparity

Answer: B) Vertical fiscal imbalance

192. Which of the following is NOT a type of fiscal imbalance discussed in the literature on fiscal federalism?

- A) Vertical fiscal imbalance
- B) Horizontal fiscal imbalance
- C) Income fiscal imbalance
- D) None of the above

Answer: C) Income fiscal imbalance

193. What is the purpose of introducing an "inverse population density" criterion in the NFC 2010 Award?

- A) To reward provinces with high population density
- B) To reward provinces with low population density
- C) To promote equitable distribution of resources among provinces
- D) To encourage provinces to increase their population growth

Answer: B) To reward provinces with low population density

194. Which factor dominated the revenue collection and generation in Pakistan between 2001 and 2012?

- A) Direct taxes
- B) Indirect taxes
- C) Corporate taxes
- D) Capital gains tax

Answer: B) Indirect taxes

195. In the context of fiscal federalism, what does the term "devolution" refer to?

- A) The transfer of expenditure obligations from provinces to the federal budget
- B) The transfer of functions and resources from the federal government to provinces

- C) The equal distribution of revenue among provinces
- D) The process of increasing the federal budget to cover provincial expenditures

Answer: B) The transfer of functions and resources from the federal government to provinces

196. What has been the trend in the provincial share of revenues in Pakistan over the years?

- A) It has consistently increased
- B) It has remained stable
- C) It has fluctuated with no clear pattern
- D) It has generally decreased

Answer: D) It has generally decreased

197. What does the "Income distance" criterion in the Indian Finance Commission Awards measure?

- A) The poverty rate among different states
- B) The distance of sub-national governments from the most developed state in terms of development
- C) The total population of different states
- D) The per capita income of different states

Answer: B) The distance of sub-national governments from the most developed state in terms of development

198. Which province in Pakistan has the lowest population density?

- A) Punjab
- B) Sindh
- C) Khyber Pakhtunkhwa (KPK)
- D) Balochistan

Answer: D) Balochistan

199. What is the main argument against the multiple criteria used for horizontal revenue distribution in Pakistan's NFC Award?

- A) Lack of transparency in the criteria
- B) Overemphasis on population criterion
- C) Insufficient consideration of provincial revenues
- D) Inadequate representation of urban areas

200. B) Overemphasis on population criterion

201. What is the recommended approach to address vertical fiscal imbalance between the federal and provincial governments?

- A) Increase federal expenditures
- B) Decrease provincial tax efforts
- C) Raise provincial own-source revenues
- D) Reduce federal grants to provinces

Answer: C) Raise provincial own-source revenues

202. What are the two types of fiscal imbalances discussed in the context of fiscal federalism?

- a) Vertical fiscal imbalance and horizontal fiscal disparity
- b) Vertical fiscal efficiency and horizontal fiscal balance
- c) Vertical fiscal inequality and horizontal fiscal equity
- d) Vertical fiscal disparity and horizontal fiscal imbalance

Answer: a) Vertical fiscal imbalance and horizontal fiscal disparity

203. Prior to the 7th NFC Award, who was responsible for collecting the sales tax in Pakistan?

- a) Provincial governments
- b) Local governments
- c) Federal government
- d) International organizations

Answer: c) Federal government

204. According to Ehtisham Ahmed's policy options, how should the General Sales Tax (GST) be collected in Pakistan?

- a) Collected by provincial governments
- b) Collected by federal government and returned to provinces
- c) Collected by local governments

d) Abolished altogether

Answer: b) Collected by federal government and returned to provinces

205. What is the purpose of rewarding fiscal discipline in the context of fiscal federalism?

a) To promote higher budget deficits

b) To discourage optimal allocation of national resources

c) To encourage provincial/sub-national governments to incur high budget deficits

d) To promote optimized allocation of national resources

Answer: d) To promote optimized allocation of national resources

206. What is the fiscal equalization index (FEI) used for?

a) To calculate population density

b) To assess the fiscal discipline of provincial governments

c) To analyze the distribution of federal transfers among provinces

d) To determine the sales tax rate

Answer: c) To analyze the distribution of federal transfers among provinces

207. What is the purpose of the Fiscal Equalization Index (FEI)?

- a) To measure the concentration of federal transfers among provinces.
- b) To assess the efficiency of provincial revenue generation.
- c) To determine the impact of poverty reduction policies.
- d) To calculate the inflation rate in different provinces.

Answer: a) To measure the concentration of federal transfers among provinces.

208. In the context of fiscal federalism, what does a negative concentration index indicate?

- a) Equal distribution of federal transfers among provinces.
- b) Disproportionate concentration of transfers among the poor.
- c) Over-concentration of transfers among the rich provinces.
- d) Decreasing trend in the fiscal equalization.

Answer: b) Disproportionate concentration of transfers among the poor.

209. How does the Fiscal Equalization Index (FEI) help assess fiscal equalization?

- a) It measures the overall GDP growth of provinces.
- b) It determines the degree of political autonomy in provinces.
- c) It evaluates the level of public goods provision by provinces.

d) It quantifies the extent to which federal transfers equalize resources among provinces.

Answer: d) It quantifies the extent to which federal transfers equalize resources among provinces.

210. What was the effect of the 18th Amendment on the Concurrent List in the Constitution of Pakistan?

- a) The Concurrent List was abolished completely.
- b) The number of subjects in the Concurrent List increased.
- c) The Concurrent List remained unchanged.
- d) The Concurrent List was merged with the Federal Legislative List.

Answer: a) The Concurrent List was abolished completely.

211. Why is the shift from indirect to direct taxation desirable in a country's tax structure?

- a) Direct taxes lead to higher revenue collection.
- b) Indirect taxes have a regressive impact on lower-income groups.
- c) Indirect taxes are easier to administer than direct taxes.
- d) Direct taxes encourage savings and investment.

Answer: b) Indirect taxes have a regressive impact on lower-income groups.

212. How did the inclusion of agricultural taxation in the divisible pool affect the fiscal equalization process in Pakistan?

- a) It increased fiscal indiscipline among provinces.
- b) It led to a higher level of federal transfers.
- c) It reduced the substitution effect of federal transfers.
- d) It improved the financial autonomy of provinces.

Answer: c) It reduced the substitution effect of federal transfers.

213. What parameter ensures that provinces receive not less than their previous share in intergovernmental fiscal transfers?

- a) Population proportionality factor
- b) Population growth rate
- c) Historical revenue share
- d) Provincial GDP

Answer: c) Historical revenue share

214. What is the main focus of Chapter 14 of the book "Issues in Pakistan's Economy"?

- a) Industrial development in Pakistan

- b) Agricultural growth in Pakistan
- c) Financial and capital markets in Pakistan
- d) Political challenges in Pakistan

Answer: c) Financial and capital markets in Pakistan

215. What is the role of the State Bank of Pakistan in the country's financial sector?

- a) Providing credit to agriculture only
- b) Issuing currency notes and regulating banks
- c) Overseeing stock exchange operations
- d) Promoting microfinance institutions

Answer: b) Issuing currency notes and regulating banks

216. What was the situation of Pakistan's financial and banking sector at the time of Partition in 1947?

- a) Highly developed and integrated
- b) Large number of branches in Pakistan
- c) Underdeveloped and limited number of branches
- d) Majority of banks owned by the government

Answer: c) Underdeveloped and limited number of branches

217. What happened to the Indian-owned banks in Pakistan after Partition?

- a) They expanded their operations
- b) They continued to operate normally
- c) They migrated to India and ceased operations
- d) They merged with Pakistani-owned banks

Answer: c) They migrated to India and ceased operations

218. When did the State Bank of Pakistan commence its operations?

- a) 1945
- b) 1948
- c) 1955
- d) 1960

Answer: b) 1948

219. Which bank remained functional in Pakistan after Partition?

- a) Australasia Bank
- b) United India Bank
- c) National Bank of Pakistan
- d) Punjab National Bank

Answer: a) Australasia Bank

220. What is one of the challenges mentioned in the chapter regarding the financial sector in Pakistan?

- a) Lack of formal financial institutions
- b) Overemphasis on informal moneylenders
- c) Excessive money creation by the State Bank
- d) High level of foreign investment

Answer: a) Lack of formal financial institutions

221. What is the main focus of the financial sector reforms that took place in Pakistan?

- a) Promoting informal moneylending
- b) Encouraging foreign investment
- c) Removing constraints within the financial sector
- d) Nationalizing all banks

Answer: c) Removing constraints within the financial sector

222. Which authority is responsible for regulating and supervising banks and DFIs in Pakistan?

- a) Ministry of Finance
- b) Securities and Exchange Commission

c) State Bank of Pakistan

d) Pakistan Banking Council

Answer: c) State Bank of Pakistan

223. What percentage of Pakistanis are estimated to use formal financial products or services?

a) 14%

b) 50%

c) 75%

d) 100%

Answer: a) 14%

224. What percentage of total bank deposits in Pakistan was held by foreign banks engaged in foreign trade in 1948?

a) 10%

b) 27%

c) 73%

d) 90%

Answer: c) 73%

225. In the early 1950s, which sector received the largest share of bank credit in Pakistan?

a) Agriculture

b) Manufacturing

c) Commerce

d) Services

Answer: c) Commerce

226. What was the primary focus of the National Bank of Pakistan's activities until June 1950?

- a) Financing jute operations
- b) Promoting domestic industries
- c) Facilitating foreign trade
- d) Expanding agricultural credit

Answer: a) Financing jute operations

227. The distribution of bank credit in Pakistan during the early years favored which type of economic activity?

- a) Industrial production
- b) Agriculture and farming
- c) Foreign trade
- d) Commerce and trade

Answer: d) Commerce and trade

228. Which factor contributed to the significant growth of bank deposits in the period 1948-54?

- a) Decrease in foreign trade

- b) Outflow of capital
- c) Surge in industrial activity
- d) Inflow of Muslim capital from other countries

Answer: d) Inflow of Muslim capital from other countries

229. What policy did the State Bank of Pakistan implement to encourage the establishment of new bank branches?

- a) Restricting the opening of new branches
- b) Encouraging foreign banks only
- c) Setting quotas for new branches
- d) Focusing on urban branches only

Answer: c) Setting quotas for new branches

230. During the 1950s, what economic activity received the lowest share of advances from banks in Pakistan?

- a) Agriculture
- b) Manufacturing
- c) Construction
- d) Services

Answer: a) Agriculture

231. What significant change occurred in the pattern of credit disbursement in the 1960s and 1970s in Pakistan?

- a) Decreased credit availability for manufacturing
- b) Shift from commerce to agriculture
- c) Increased focus on services sector
- d) Rise in credit availability for manufacturing

Answer: d) Rise in credit availability for manufacturing

232. Which region of Pakistan received a greater share of bank branches in the 1960s?

- a) East Pakistan
- b) West Pakistan
- c) Both regions equally
- d) Northern regions

Answer: b) West Pakistan

233. The growth of which economic sector had a direct impact on the growth of the banking sector in Pakistan?

- a) Agriculture
- b) Foreign trade
- c) Industrial manufacturing
- d) Services

Answer: c) Industrial manufacturing

234. What percentage of credit did Agriculture, Forestry, Fishing, and Hunting receive in 1977?

- a) 10% b) 12% c) 21% d) 24%

Answer: a) 10%

235. In which year did the Bank Nationalization Ordinance come into effect in Pakistan?

- a) 1969 b) 1974 c) 1977 d) 1985

Answer: b) 1974

236. Which major banks were owned by the Habibs, Saigols, and Adamjees?

- a) Nationalized Banks b) Private Banks
c) Foreign Banks d) Investment Banks

Answer: b) Private Banks

237. What Islamic mode of financing involves a bank participating as a financial partner in a profitable project?

- a) Murabaha b) Musharakah
c) Mudarabah d) Ijarah

Answer: b) Musharakah

238. What led to a contraction in advances to the private sector during the 1990-2010 period?

- a) Political pressure on banks
- b) Inadequate banking regulations
- c) Lack of government borrowing
- d) Slow private sector investment

Answer: d) Slow private sector investment

239. What was the main constituent of the non-bank financial sector in terms of assets during the 2000s?

- a) Development Finance Institutions (DFIs)
- b) Investment banks
- c) Leasing companies
- d) Trust funds

Answer: b) Investment banks

240. Which event caused a sharp negative fall in the growth rate of assets, loans, and deposits for the non-bank financial sector?

- a) Privatization of DFIs

b) Introduction of new banking regulations

c) Nuclear tests in 1998

d) Economic recession in 1997

Answer: c) Nuclear tests in 1998

241. What major issues did the Development Finance Institutions (DFIs) face in Pakistan?

a) Lack of government support

b) Inadequate access to foreign capital

c) Mismanagement and excessive loans

d) Insufficient technical expertise

Answer: c) Mismanagement and excessive loans

242. In the mid-1990s, which type of banks in Pakistan showed better performance compared to others?

a) Nationalized banks

b) Foreign banks

c) Privatized banks

d) Specialized banks

Answer: b) Foreign banks

243. Why did some foreign banks leave Pakistan during the Musharraf-Aziz era?

- a) Economic crisis
- b) Government restrictions
- c) Security concerns and economic conditions
- d) Competition from local banks

Answer: c) Security concerns and economic conditions

244. Which factor played a significant role in promoting growth and development in many countries, including Pakistan?

- a) Directed credit
- b) Foreign investments
- c) Privatization of banks
- d) Political interference

Answer: a) Directed credit

245. What was a key concern associated with the liquidity boom of the Musharraf-Aziz years?

- a) Inadequate banking infrastructure
- b) Lack of foreign investment
- c) Non-productive lending and financial bubbles

d) Decline in profitability of banks

Answer: c) Non-productive lending and financial bubbles

246. In the year 2011, why was it considered the 'most profitable year' for many commercial banks in Pakistan?

a) Large influx of foreign capital

b) Significant government support

c) Growth in non-performing loans

d) Turnaround of previously loss-making banks

Answer: d) Turnaround of previously loss-making banks

247. According to Farooq Tirmizi's analysis, what was the main reason for the blow-out increase in the banking sector's profitability in 2011?

a) Extraordinary increase in deposits

b) Record-breaking interest rate spreads

c) Reduction in provisioning for loan losses

d) Massive investments in treasury bonds

Answer: c) Reduction in provisioning for loan losses

248. Shahid Iqbal's article highlights the problem of raising minimum capital requirements in the banking sector. Which banks were facing acute problems in this regard?

- a) Large multinational banks
- b) Foreign banks with local operations
- c) Small and medium-sized banks
- d) Privatized state-owned banks

Answer: c) Small and medium-sized banks

249. What factor contributed to the decline in the number of small depositors in the banking sector, as discussed in Rauf Nizamani's analysis?

- a) Decrease in interest rates offered by banks
- b) Introduction of additional service charges on deposits
- c) Insufficient number of bank branches in rural areas
- d) Lack of awareness about banking services

Answer: b) Introduction of additional service charges on deposits

250. In the equity market, what percentage of the Pakistani population actively invests in shares?

- a) 1% b) 5% c) 10% d) 0.01%

Answer: d) 0.01%

251. Why does the equity market in Pakistan lack necessary depth and breadth, according to Dr. Amjad Waheed?

- a) Lack of investor interest in leveraged positions
- b) Limited options for margin trading
- c) Low liquidity due to low trading volumes
- d) Excessive capital gain tax (CGT) on stock market transactions

Answer: a) Lack of investor interest in leveraged positions

252. What has been the trend in average daily trading volumes in the Pakistani stock market since 2008?

- a) Steady increase b) Sharp increase
- c) Steady decline d) Sharp decline

Answer: d) Sharp decline

253. What is highlighted as a contributing factor to the lack of confidence of masses in stock investment, according to Dr. Amjad?

- a) Excessive taxation on stock gains

- b) Lack of investor education and awareness
- c) Economic and political instability
- d) Limited availability of leveraged positions

Answer: a) Excessive taxation on stock gains

254. What percentage of trading does the Karachi Stock Exchange (KSE) dominate among the three stock exchanges in Pakistan?

- a) Less than 30%
- b) About 40%
- c) More than 60%
- d) Around 50%

Answer: c) More than 60%

255. How did the number of listed companies in Karachi change from 1986 to 2013?

- a) Increased consistently
- b) Decreased consistently
- c) Fluctuated but increased overall
- d) Increased initially and then decreased

Answer: c) Fluctuated but increased overall

256. What was the State Bank of Pakistan General Index of Share Prices in 1990/1?

- a) 100
- b) 200
- c) 50
- d) 290

Answer: a) 100

257. What factors caused the boom of March 1994 in the Karachi Stock Exchange?

- a) Government regulations
- b) Nuclear tests
- c) Large public offerings and political stability
- d) Decreased interest rates

Answer: c) Large public offerings and political stability

258. What percentage of trading turnover is estimated to be accounted for by the shares of the ten best blue-chip companies?

- a) Less than 10%
- b) About 20%
- c) Around 30%
- d) More than 50%

Answer: c) Around 30%

259. What is the primary reason for the lack of transparency and credibility of information in the stock market?

- a) Insufficient government regulations
- b) Inadequate technology infrastructure
- c) Antiquated stock practices and inadequate disclosure rules
- d) Lack of interest from foreign investors

Answer: c) Antiquated stock practices and inadequate disclosure rules

260. How has the stock market performance been affected by the law and order situation, economic conditions, and political uncertainty in Pakistan?

- a) It has remained consistently positive.
- b) It has led to increased foreign investments.

- c) It has experienced significant volatility and fluctuations.
- d) It has remained stable and unaffected.

Answer: c) It has experienced significant volatility and fluctuations.

261. What is the major source of shareholding in the stock market?

- a) Foreign investors
- b) Institutions such as NIT and ICE
- c) Individual investors and brokers
- d) Sponsors of the companies themselves

Answer: d) Sponsors of the companies themselves

262. How are share transfers and registration handled in the stock market, and how does it affect trading volumes?

- a) The process is efficient and facilitates high trading volumes.
- b) The process is quick and fully electronic, promoting active trading.
- c) The process is cumbersome and manual, limiting trading volumes.
- d) The process is regulated by foreign institutions, boosting trading.

Answer: c) The process is cumbersome and manual, limiting trading volumes.

263. What is the overall perception of the Karachi Stock Exchange's efficiency and fairness among most investors?

- a) It is highly efficient and fair.
- b) It is moderately efficient but not fair.
- c) It is efficient but not fair.
- d) It is neither efficient nor fair.

Answer: d) It is neither efficient nor fair.

264. According to the passage, what factor challenges the claim that stock markets in developing countries are driven by 'fundamentals'?

- a) Weak regulatory and contractual enforcement
- b) Lack of corporate governance
- c) Limited availability of financial institutions
- d) Fear of exploitation by insider traders

Answer: a) Weak regulatory and contractual enforcement

265. What is the primary mechanism through which brokers manipulate stock prices, as discussed in the passage?

- a) Colluding with outside traders
- b) Heavy back-and-forth trading
- c) Artificially raising prices through colluding
- d) Encouraging principal brokers to invest

Answer: c) Artificially raising prices through colluding

266. Which of the following is NOT mentioned as a reason why small investors might be deterred from investing in stock markets in developing countries?

- a) Poor corporate governance
- b) Price manipulation by brokers
- c) Lack of regulatory enforcement
- d) Fear of insider trading

Answer: b) Price manipulation by brokers

267. What is the main finding regarding the profitability of principal brokers compared to intermediaries in the stock market?

- a) Principal brokers earn significantly lower returns
- b) Intermediaries consistently outperform principal brokers
- c) Principal brokers earn significantly higher returns
- d) There is no significant difference in returns

Answer: c) Principal brokers earn significantly higher returns

268. **According to the passage, what characteristic of trading days has strong predictive power for future stock returns?**

- a) The number of trades done by principal brokers
- b) The presence of outside traders on both buy and sell sides
- c) The trading volume of a given stock
- d) The stock's price variability

Answer: b) The presence of outside traders on both buy and sell sides

269. **Why did Pakistan fail to qualify for a reclassification to the Emerging Markets Index according to MSCI?**

- a) Lack of political stability
- b) Decline in free-float of potential companies
- c) Insufficient market accessibility
- d) Inadequate liquidity

Answer: b) Decline in free-float of potential companies

270. **What impact did the downgrade of the Karachi Stock Exchange to the frontier markets index have?**

- a) Increase in foreign investment
- b) Improved liquidity and trading

- c) Decrease in free-float capitalization
- d) Rise in stock market index

Answer: c) Decrease in free-float capitalization

271. **What was the main reason for the crash in the Karachi Stock Exchange in July 2008?**

- a) Political uncertainty
- b) Interest rate increase
- c) Inflation
- d) Decline in foreign investment

Answer: b) Interest rate increase

272. **Why did Zafar Moti consider the index downgrade to be a "blessing in disguise"?**

- a) It attracted more foreign investment
- b) It allowed Pakistan to compete in emerging markets
- c) It boosted the KSE's status as a frontier market
- d) It decreased competition from other countries

Answer: a) It attracted more foreign investment

273. **What did the KSE official acknowledge about the market's status under the frontier markets index?**

- a) It increased competition among members
- b) It led to a decline in foreign investment
- c) It boosted the KSE's ego and status
- d) It prevented foreign fund managers from investing

Answer: c) It boosted the KSE's ego and status

274. What was the Karachi Stock Exchange's (KSE) return in 2012, making it one of the best performing markets?

- a) 10.34% b) 49% c) 7.6% d) 18%

Answer: b) 49%

275. What factor contributed to the KSE's spectacular rise in 2012?

- a) Government investments
b) Foreign partnerships
c) Amnesty for undeclared assets
d) Decrease in taxes

Answer: c) Amnesty for undeclared assets

276. What is the primary purpose of capital market development?

- a) Strengthening the economy
b) Increasing government budget allocations
c) Supporting foreign investments
d) Enhancing bureaucratic management

Answer: a) Strengthening the economy

277. In the context of capital markets, what is the role of commercial banks?

- a) Issuing new securities
- b) Providing short-term loans
- c) Mobilizing long-term funds
- d) Regulating market activities

Answer: c) Mobilizing long-term funds

278. Which market is considered illiquid when compared to other countries in Asia?

- a) Foreign exchange market
- b) Real estate market
- c) Debt market
- d) Equity market

Answer: d) Equity market

279. What is the significance of government bonds and treasury bills in the debt market?

- a) They dominate the market and are actively traded.
- b) They discourage investment in private sector debt securities.
- c) They have a low yield compared to inflation rates.
- d) They are primarily offered by foreign investors.

Answer: b) They discourage investment in private sector debt securities.

280. What is the main reason behind the lack of liquidity in the Karachi Stock Exchange?

- a) High taxes on stock trades
- b) Limited number of listed companies
- c) Foreign investors' absence
- d) Lack of investor interest

Answer: b) Limited number of listed companies

281. What is the current status of foreign investment in the Pakistani equity market?

- a) 5% of total investment
- b) 15% of total investment

- c) Dominant share of total investment
- d) Negligible impact on the market

Answer: c) Dominant share of total investment

282. What is the purpose of the repackaging of financial flows in capital markets?

- a) To decrease investment opportunities
- b) To discourage foreign investment
- c) To increase government control
- d) To provide various investment options

Answer: d) To provide various investment options

283. What is the primary benefit of an efficient capital market?

- a) Higher taxes for the government
- b) Guaranteed returns for investors
- c) Improved standard of living and economic growth
- d) Increased foreign aid and financial support

Answer: c) Improved standard of living and economic growth

284. According to the provided text, why does the author suggest that developing countries should consider insulating their real industrial economies from the influence of the stock market?

- A) To encourage foreign portfolio investment.
- B) To promote short-term speculative trading.
- C) To enhance long-term economic growth.
- D) To discourage bank-based financial systems.

Answer: C) To enhance long-term economic growth.

285. What is the primary reason cited by the author for encouraging bank-based financial systems in developing countries over stock-market-based systems?

- A) They promote speculative trading.
- B) They provide greater liquidity.
- C) They have a proven record of promoting industrial development.
- D) They attract more foreign investors.

Answer: C) They have a proven record of promoting industrial development.

286. According to the text, what is the potential downside of stock-market-based financial systems in developing countries?

- A) They lead to higher taxation on share turnover.
- B) They encourage long-term investment.
- C) They may hinder efficient industrial development.
- D) They lead to stronger industry-finance links.

Answer: C) They may hinder efficient industrial development.

287. What role does the International Finance Corporation (IFC) play in the context of developing countries' stock-market development?

- A) It promotes the establishment of crony capitalism.
- B) It encourages monopolistic positions in product markets.
- C) It provides technical assistance and encourages foreign portfolio investment.
- D) It enforces strict government regulation of banks.

Answer: C) It provides technical assistance and encourages foreign portfolio investment.

288. Why does the author argue that the market for corporate control in developing countries may accentuate negative features of the stock market?

- A) It encourages long-term investment.
- B) It promotes economic development.

C) It enhances competition among corporations.

D) It encourages short-termism.

Answer: D) It encourages short-termism.

289. What is the primary concern of monetary policy?

a) Allocating resources in different sectors

b) Determining government expenditures

c) Controlling foreign exchange reserves

d) Regulating trade policies

Answer: a) Allocating resources in different sectors

290. According to the text, what role does the IMF play in financial sector reforms?

a) It opposes market-based management of monetary policy.

b) It advocates for a shift to quantitative methods.

c) It recommends a transition to direct government involvement.

d) It suggests changes to banking laws.

Answer: b) It advocates for a shift to quantitative methods.

291. Before the 1991 financial sector reforms, how was monetary policy managed in Pakistan?

- a) Through indirect market-based methods
- b) By the State Bank of Pakistan independently
- c) With significant government control and involvement
- d) Under the supervision of the International Monetary Fund

Answer: c) With significant government control and involvement

292. What was the purpose of establishing the National Credit Consultative Council (NCCC)?

- a) To determine the distribution of credit in the economy
- b) To regulate foreign exchange reserves
- c) To manage fiscal policy exclusively
- d) To oversee stock market operations

Answer: a) To determine the distribution of credit in the economy

293. What is one of the key roles of the State Bank of Pakistan after the 1991 reforms?

- a) Determining government expenditures

- b) Setting interest rates arbitrarily
- c) Regulating foreign exchange reserves
- d) Regulating the banking system and monetary policy

Answer: d) Regulating the banking system and monetary policy

Savings and Inflation:

294. What is the relationship between inflation and excessive monetary growth?

- a) Inflation is unrelated to monetary growth.
- b) Excessive monetary growth leads to deflation.
- c) Inflation is a result of excessive monetary growth.
- d) Monetary growth has no impact on inflation.

Answer: c) Inflation is a result of excessive monetary growth.

295. How does the text describe Pakistan's savings rate?

- a) Consistently high and increasing
- b) Moderate and stable over the years
- c) Extremely low and resistant to improvement
- d) Fluctuating widely based on government policies

Answer: c) Extremely low and resistant to improvement

296. According to the text, what factor is NOT responsible for high inflation in Pakistan?

- a) Excessive government borrowing
- b) Government's fiscal policies
- c) Structural economic reforms
- d) Uncontrolled money supply

Answer: c) Structural economic reforms

297. What is the role of the National Credit Consultative Council (NCCC) in monetary policy?

- a) Setting interest rates
- b) Regulating foreign exchange reserves
- c) Distributing credit among sectors
- d) Implementing fiscal policies

Answer: c) Distributing credit among sectors

298. How does the text suggest that fiscal and monetary policies should interact?

- a) They should be independent and unrelated.
- b) They should both be controlled by the State Bank of Pakistan.
- c) They should be mutually supportive and appropriate.
- d) They should compete for government resources.

Answer: c) They should be mutually supportive and appropriate.

299. **What was the main mechanism of monetary policy and credit management between 1972 and 1991 in Pakistan's economy?**

- a) Open market operations
- b) Changes in the bank rate
- c) Credit ceilings and credit budgeting
- d) Market-based interest rate determination

Answer: c) Credit ceilings and credit budgeting

300. **In the pre-reform financial structure of Pakistan, what percentage of demand and time deposits did commercial banks have to invest in government paper?**

- a) 10%
- b) 20%
- c) 30%
- d) 40%

Answer: c) 30%

301. **Which institution played a central role in the monetary management of Pakistan's financial sector before the reforms?**

- a) International Monetary Fund (IMF)
- b) World Bank

- c) State Bank of Pakistan (SBP)
- d) Ministry of Finance

Answer: c) State Bank of Pakistan (SBP)

302. **What were the adverse effects of the directed credit policies in Pakistan's financial sector between 1972 and 1991?**

- a) Excess liquidity in banks
- b) High returns on government debt
- c) Strong control over the issuance of debt
- d) Non-performing loans and segmented financial markets

Answer: d) Non-performing loans and segmented financial markets

303. **What was one of the principal aims of the government's financial sector reforms in the 1990s?**

- a) Increasing credit ceilings
- b) Establishing a market-determined money market
- c) Imposing higher cash reserve requirements
- d) Reducing open market operations

Answer: b) Establishing a market-determined money market

304. **What was the purpose of auctioning Treasury Bills and Federal Investment Bonds in Pakistan's financial market reform?**

- a) To increase credit ceilings
- b) To encourage foreign investment
- c) To establish a yield curve for government debt
- d) To reduce the money supply

Answer: c) To establish a yield curve for government debt

305. What factor led to the emergence of an excess liquidity problem in banks during the pre-reform period?

- a) High interest rates on government debt
- b) Low credit ceilings
- c) Excessive lending to priority sectors
- d) Imposition of cash reserve requirements

Answer: a) High interest rates on government debt

306. What role did non-bank financial institutions (NBFIs) play in the pre-reform financial sector of Pakistan?

- a) They were under the supervision of SBP.
- b) They were the main lenders to priority sectors.
- c) They were exempt from credit ceilings.
- d) They were unable to mobilize financial savings.

Answer: c) They were exempt from credit ceilings.

307. What organization criticized the imposition of Structural Adjustment Programs in the Asia-Pacific region?

- a) World Bank
- b) International Monetary Fund (IMF)
- c) United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)

d) Asian Development Bank (ADB)

Answer: c) United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)

308. According to the UNESCAP report, what is a potential consequence of financial liberalization in developing countries?

- a) Increased market stability
- b) Greater control over government finances
- c) Macroeconomic instability through capital market opening
- d) Improved income distribution

Answer: c) Macroeconomic instability through capital market opening

309. What is the main concern raised by UNESCAP regarding the impact of financial liberalization on developing countries?

- a) Decreased competition in the financial sector
- b) Reduced access to credit for disadvantaged groups
- c) Higher inflation rates
- d) Strengthened government control over the economy

Answer: b) Reduced access to credit for disadvantaged groups

310. What is the primary motivation for establishing specialized financial institutions in developing countries?

- a) Promoting urban sector development
- b) Encouraging foreign currency investments
- c) Catering to the needs of the rural-agricultural sector
- d) Expanding the power of the central bank

Answer: c) Catering to the needs of the rural-agricultural sector

311. According to the report, what factor is crucial for the success of financial reforms in a country?

- a) Liberalized interest rates
- b) Foreign investment incentives
- c) Stable macroeconomic environment
- d) Expansive secondary market for government securities

Answer: c) Stable macroeconomic environment

312. What factor was identified as having the greatest negative effect on food prices in Pakistan?

- a) Monetary policy

- b) Supply shocks
- c) External shocks
- d) Inflationary expectations

Answer: b) Supply shocks

313. According to the analysis, which of the following does NOT have a significant impact on overall inflation?

- a) Administered prices of utilities
- b) Monetary expansion
- c) Procurement prices of wheat
- d) Rise in indirect taxes

Answer: b) Monetary expansion

314. What was the primary reason for the substantial fall in Pakistan's inflation rate after 1998?

- a) Implementation of IMF and World Bank policies
- b) Significant devaluation of the Pakistani rupee
- c) Reduction in supply shocks

d) Expansionary monetary policy

Answer: b) Significant devaluation of the Pakistani rupee

315. Which policy variable was identified as having a negative effect on the acceleration of inflation for the period 1961-88?

a) High fiscal deficits

b) Bond-financed government expenditure

c) Supply shocks

d) Inflationary expectations

Answer: b) Bond-financed government expenditure

316. What is the role of inflationary expectations in the study's analysis of inflation?

a) They have a minimal impact on overall inflation.

b) They contribute significantly to rising prices.

c) They are primarily affected by supply shocks.

d) They are not considered in the analysis.

Answer: b) They contribute significantly to rising prices.

317. What was a major factor contributing to the unprecedented and chronic inflation rates in Pakistan since 2007/8?

- a) Government subsidies
- b) Foreign investment
- c) Low oil prices
- d) High oil prices

Answer: d) High oil prices

318. The increase in food prices globally after 2008 was partly due to:

- a) Decreased agricultural production
- b) Decreased demand for biofuels
- c) Decreased oil prices
- d) Decreased consumer spending

Answer: a) Decreased agricultural production

319. What effect did floods in 2010 and 2011 have on Pakistan's inflation rate?

- a) Decreased inflation
- b) Increased inflation

- c) No effect on inflation
- d) Increased food production

Answer: b) Increased inflation

320. Which of the following sectors generates the majority of national savings in Pakistan?

- a) Government sector
- b) Corporate sector
- c) Household sector
- d) Foreign sector

Answer: c) Household sector

321. According to the text, which two major schools of thought explain why low levels of savings exist in Pakistan?

- a) Financial repression and fiscal conservatism
- b) Financial development and fiscal austerity
- c) Financial repression and financial structure
- d) Financial development and financial structure

Answer: c) Financial repression and financial structure

322. What is the main factor causing low savings in Pakistan, according to the financial repression school?

- a) High real interest rates
- b) Low nominal interest rates
- c) Government subsidies
- d) High inflation rates

Answer: b) Low nominal interest rates

323. Why did the cost of external financing reduce as a percentage of operational costs for businesses in recent years?

- a) Decreased energy costs
- b) Increased savings rates
- c) Imported inflation
- d) Government overspending

Answer: c) Imported inflation

324. How did the State Bank of Pakistan (SBP) respond to the reduced private sector credit intake in FY12?

- a) Lowered policy interest rates
- b) Increased government borrowings
- c) Focused on inflation targeting
- d) Limited lending to non-bank finance companies

Answer: a) Lowered policy interest rates

325. According to the text, which of the following is NOT a factor responsible for inflation in Pakistan?

- a) Imported inflation
- b) Excessive government borrowings
- c) Administered prices
- d) Increased savings rates

Answer: d) Increased savings rates

326. What was the main objective of Pakistan's monetary policy during the period discussed in the text?

- a) Inflation targeting
- b) Ensuring sufficient economic growth while controlling inflation

- c) Maximizing government revenues
- d) Reducing fiscal deficit

Answer: b) Ensuring sufficient economic growth while controlling inflation

327. **What is the main focus of Sajjad Akhtar's analysis of Pakistan's monetary policy?**

- A) Inflation management
- B) Growth promotion
- C) Exchange rate stabilization
- D) Financial sector reforms

Answer: B) Growth promotion

328. **According to the author, how have the easing cycles of monetary policy in the last decade compared to the tightening cycles?**

- A) Easing cycles were longer and slower than tightening cycles.
- B) Easing cycles were shorter and faster than tightening cycles.
- C) Easing and tightening cycles were of similar length and speed.
- D) Easing and tightening cycles had no significant differences.

Answer: B) Easing cycles were shorter and faster than tightening cycles.

329. **What is the observed impact of a 1 percentage point decline in the policy rate on the growth rate of manufacturing?**

A) 0.10 per cent increase

B) 0.20 per cent increase

C) 0.27 per cent increase

D) 0.30 per cent increase

Answer: B) 0.20 per cent increase

330. **Which sector receives a boost from lower interest rates and has forward linkages to other manufacturing sub-sectors?**

A) Agriculture

B) Textile industry

C) Housing sector

D) Energy sector

Answer: C) Housing sector

331. **What impact does lowering the policy rate have on consumer credit and import-intensive durables?**

A) Increases demand for consumer credit and import-intensive durables

B) Decreases demand for consumer credit and import-intensive durables

- C) Has no impact on consumer credit and import-intensive durables
- D) Increases demand for consumer credit but decreases demand for import-intensive durables

Answer: A) Increases demand for consumer credit and import-intensive durables

332. **What factor is NOT mentioned as a potential result of lowering interest rates on property investment?**

- A) Speculative property boom
- B) Stable exchange rate
- C) Increased construction-related industries
- D) Higher interest rates on borrowed funds

Answer: D) Higher interest rates on borrowed funds

333. **What effect does foreign financial inflow have on domestic savings, according to Shabbir and Mahmood?**

- A) Encourages domestic public and private saving
- B) Discourages domestic public and private saving
- C) Has no impact on domestic savings
- D) Boosts foreign capital inflows and domestic savings equally

Answer: B) Discourages domestic public and private saving

334. What is considered one of the key reasons for Pakistan's persistent low savings rate?

A) High interest rates

B) Financial sector reforms

C) Cultural factors and consumption behavior

D) Excessive government spending

Answer: C) Cultural factors and consumption behavior

335. What is the main objective of the Monetary Policy in Pakistan?

a) Price stability

b) Economic growth

c) Exchange rate stability

d) Fiscal balance

Answer: a) Price stability

336. The State Bank of Pakistan implements monetary policy through which of the following tools?

a) Taxation

b) Government spending

c) Open Market Operations

d) Trade policies

Answer: c) Open Market Operations

337. The call money market in Pakistan is used for:

a) Long-term borrowing

b) Short-term borrowing between banks

c) Government borrowing

d) Foreign exchange trading

Answer: b) Short-term borrowing between banks

338. What is the primary purpose of the credit ceiling in Pakistan's money market?

a) To limit foreign investments

b) To control inflation

c) To restrict lending by banks

d) To promote foreign trade

Answer: c) To restrict lending by banks

339. The Quantity Theory of Money, associated with the Monetarist model, suggests that inflation is primarily caused by changes in:

- a) Aggregate demand
- b) Aggregate supply
- c) Money supply
- d) Fiscal deficit

Answer: c) Money supply

340. What is the main function of the Securities and Exchange Commission of Pakistan (SECP)?

- a) Implementing fiscal policy
- b) Regulating the stock market
- c) Managing foreign exchange reserves
- d) Setting monetary policy rates

Answer: b) Regulating the stock market

341. Which of the following is NOT a component of Pakistan's money market?

- a) Call money market

- b) Credit ceiling market
- c) Repo market
- d) Foreign exchange market

Answer: b) Credit ceiling market

342. The Phillips curve model of inflation suggests a trade-off between:

- a) Inflation and interest rates
- b) Inflation and unemployment
- c) Inflation and fiscal deficit
- d) Inflation and trade balance

Answer: b) Inflation and unemployment

343. In the context of inflation, what is the role of the Structural Model of Inflation?

- a) To explain inflation as a result of monetary policy actions
- b) To analyze the impact of fiscal deficits on inflation
- c) To identify specific structural factors that cause inflation
- d) To examine the relationship between inflation and economic growth

Answer: c) To identify specific structural factors that cause inflation

344. What is the primary purpose of the Monetary Management Measures in Pakistan?

- a) To regulate the foreign exchange market
- b) To manage the trade balance
- c) To control inflation and manage liquidity in the banking system
- d) To promote export-oriented industries

Answer: c) To control inflation and manage liquidity in the banking system

345. What is the main focus of the economic policies suggested in the 1950s and 1960s for underdeveloped countries?

- a) Income redistribution
- b) Social welfare programs
- c) Economic growth
- d) Agricultural development

Answer: c) Economic growth

346. What is the concept of "trickle-down" economics?

- a) Focus on poverty reduction through direct cash transfers
- b) Redistribution of wealth through land reforms
- c) Emphasis on growth benefiting the wealthy, with benefits eventually reaching the poor
- d) Encouraging international trade for overall development

Answer: c) Emphasis on growth benefiting the wealthy, with benefits eventually reaching the poor

347. Which sector of the economy experienced neglect during the initial phase of industrialization?

- a) Agriculture
- b) Manufacturing
- c) Services
- d) Technology

Answer: a) Agriculture

348. In the 1970s, what approach did countries adopt to address the problems caused by the emphasis on economic growth?

- a) Import substitution
- b) Structural Adjustment Programs
- c) Basic needs approach
- d) Privatization

Answer: c) Basic Needs approach

349. What major issue led to the debt crisis of the 1980s in many developing countries?

- a) Hyperinflation
- b) Budget surpluses
- c) Trade surpluses
- d) Deteriorating balance of payments

Answer: d) Deteriorating balance of payments

350. What role did the IMF and World Bank play in the 1980s with regard to economic restructuring?

- a) Limited advisory role
- b) Minimal involvement
- c) Indirect influence
- d) Direct and aggressive involvement

Answer: d) Direct and aggressive involvement

351. Which concept emerged in the 1990s to address the shortcomings of the Structural Adjustment Programs?

- a) Import substitution
- b) Trickle-down economics
- c) Sustainable development
- d) Functional inequality

Answer: c) Sustainable development

352. What is the key institution through which the official financial institutions gained influence over policymaking?

- a) World Trade Organization (WTO)
- b) United Nations (UN)
- c) World Bank
- d) International Labour Organization (ILO)

Answer: c) World Bank

353. What is the primary mechanism by which the IMF and World Bank induce changes in development policy and economic structures?

- a) Economic sanctions
- b) Aid grants
- c) Bilateral agreements
- d) Conditionality

Answer: d) Conditionality

354. What did the Basic Needs approach introduced in the 1970s emphasize?

- a) Income redistribution
- b) Privatization of state-owned enterprises
- c) Provision of basic facilities for the poor
- d) Export-oriented industrialization

Answer: c) Provision of basic facilities for the poor

355. What were the primary roles of the IMF and the World Bank in the economic development of developing countries in the 1970s?

- A) IMF focused on specific projects, while World Bank focused on balance of payments.
- B) IMF focused on improving balance of payments, while World Bank focused on macroeconomic policy.
- C) IMF provided loans for infrastructure projects, while World Bank provided loans for social spending.
- D) IMF and World Bank both focused on stabilizing domestic currency exchange rates.

Answer: B) IMF focused on improving balance of payments, while World Bank focused on macroeconomic policy.

356. What major change occurred in the 1980s in the programs of the World Bank and IMF?

- A) The programs became narrower and more focused on stabilization.
- B) The programs became more fused, blurring the distinction between stabilization and adjustment.
- C) The programs shifted towards funding only specific projects rather than macroeconomic policies.
- D) The programs increased the number of conditions attached to loans.

Answer: B) The programs became more fused, blurring the distinction between stabilization and adjustment.

357. What was the initial approach of the IMF to loans under the structural adjustment umbrella?

- A) Focus on sectoral loans to stimulate supply response.
- B) Emphasis on stabilizing the balance of payments and cutting domestic demand.
- C) Prioritize institutional and policy reform over stabilization measures.
- D) Provide easy credit terms to developing countries for luxury consumption.

Answer: B) Emphasis on stabilizing the balance of payments and cutting domestic demand.

358. What is the main criticism of the IMF's policies as expressed by Joseph Stiglitz?

- A) The IMF's policies promote excessive government spending.
- B) The IMF's policies fail to promote global stability and often lead to deeper crises.
- C) The IMF's policies are too focused on monetary policy and neglect fiscal measures.
- D) The IMF's policies prioritize military build-up over economic development.

Answer: B) The IMF's policies fail to promote global stability and often lead to deeper crises.

359. What factor contributed to the difficulty of implementing structural adjustment programs in developing countries?

- A) Lack of technical assistance and training from the IMF.
- B) Rapid capital market liberalization before establishing strong financial institutions.

- C) Overemphasis on protecting domestic industries in the early stages of development.
- D) Reluctance of developing countries to adopt free market ideologies.

Answer: B) Rapid capital market liberalization before establishing strong financial institutions.

Q&A:

1. What interesting observation is made about Pakistan's GDP?

Answer: It is under-reported by as much as 40 per cent.

2. According to the passage, what is the real concern regarding the budget deficit?

Answer: The issue of spending and redistribution of public money.

3. What is the key concern regarding the budget deficit and public spending in Pakistan?

Answer: The contrast in the patterns of defense expenditure and development expenditure.

4. What are the two possible explanations for the increase in defense spending and the decrease in development expenditure in Pakistan?

Answer:

- The military's direct use of the defence budget and its influence in the civilian economy, and

- The military's continued power and policing role in the post-martial law period.

5. Why is the question of governance and how public money is utilized important in the context of Pakistan's economy?

Answer: Corruption and misuse of public money impact the effectiveness of public expenditure and fiscal policy.

6. What is the main issue with Pakistan's debt profile?

Answer: The country faces an extraordinary and unsustainable burden of both domestic and foreign debt.

7. What is the dilemma faced by the government regarding taxation and the budget deficit?

Answer: The government is reluctant to tax the wealthy agricultural lobby, which leads to additional taxes on those who have no option but to pay.

8. How have continued access to IMF and World Bank loans affected Pakistan's structural reforms?

Answer: They have become an excuse to postpone important reforms such as land reforms and levying agricultural income tax.

9. What is the interesting observation about Pakistan's GDP mentioned in the passage?

A: Pakistan's GDP is under-reported by as much as 40 per cent.

10. According to the passage, what is the real concern regarding the budget deficit in Pakistan?

A: The issue of spending and redistribution of public money.

11. What is the key concern regarding Pakistan's budget deficit and public spending?

A: The contrast in the patterns of defence expenditure and development expenditure.

12. What are the two possible explanations for the pattern of defence and development expenditure in Pakistan?

A:

- The military's direct use of the defence budget and its privileges in the civilian economy.
- The military's influence even when not in government, leading to a higher share of defence expenditure under democracy.

13. What does the passage suggest about the role of IMF loans in Pakistan's economy?

A: The availability of IMF loans has become an excuse to postpone structural reforms, such as levying agricultural income tax and addressing issues of public expenditure.

14. What is the Debt Reduction and Management Strategy (DRMS) in Pakistan?

A: It is a report released by the Debt Reduction and Management Committee to tackle Pakistan's external and internal debt problems.

15. Why was Pakistan facing a serious crisis on both domestic and foreign debt fronts?

A: It had a significant burden of debt in both categories.

16. According to the passage, what is the main reason for Pakistan's high public debt?

A: The downward rigidity of budgetary expenditures and lack of buoyancy in revenues, along with the reluctance to tax the wealthy agricultural lobby.

What is the interesting observation about Pakistan's GDP in the passage?

A: The interesting observation is that Pakistan's GDP may be under-reported by as much as 40 per cent.

17. How would the reported official figure of the budget deficit change if Pakistan's GDP is under-reported?

A: The size of the budget deficit as a percentage of the true GDP would be much less than the reported official figure of 8 per cent, and it may even be 'sustainable.'

18. According to the passage, what is the real concern regarding the budget deficit?

A: The real concern regarding the deficit is the issue of spending and redistribution of public money.

19. What is the key concern regarding the budget deficit and public spending in Pakistan?

A: The key concern is the contrast between defence expenditure and development expenditure.

20. What is one possible explanation for the increase in defense spending and the decrease in development expenditure in Pakistan?

A: One possible explanation is that during military rule, the military not only made direct use of the defense budget but also acquired a large share in the civilian side of the economy.

21. According to the passage, why is the question of governance and how public money is utilized important?

A: With corruption rampant at all levels of government, it is important to understand how public money is utilized, allocated, managed, and siphoned off.

22. Why is the government reluctant to tax the wealthy agricultural lobby to reduce the budget deficit?

A: The government is reluctant to tax the wealthy agricultural lobby due to political reasons and to remain in the good books of the IMF.

23. What is one possible solution to raise additional revenue and cut the deficit in Pakistan?

A: One possible solution is to tax agricultural income, but political considerations make it challenging to implement.

24. According to the passage, what strategy do organizations like the World Bank and the IMF use to ensure their longevity?

A: Propping up regimes that cannot take sensitive or tough decisions.

25. What does the present government in Islamabad need to do to secure another large IMF loan and maintain support from the powerful agricultural lobby?

A: Lower the budget deficit to 4 per cent of GDR as per IMF instructions for the coming year.

26. What factors contributed to the increase in Pakistan's public debt burden in the 1996-99 period?

A: The debt burden increased due to declining growth rates and revenue, as well as substantially high real interest rates.

27. According to the DRMS, what triggered the debt crisis in Pakistan in the 1990s?

A: The unsustainability of the level of current account balance of payments deficits and the pattern of their financing.

28. In which period did Pakistan experience a decline in development spending and an increase in the share of interest payments?

A: The period from the early 1980s to 2000.

29. According to the passage, what do organizations like the World Bank and IMF do to ensure their longevity?

A: They prop up regimes that are not capable or willing to make sensitive or tough decisions.

30. How can the present government in Islamabad secure another large IMF loan, according to the passage?

A: By lowering the budget deficit to 4 per cent of GDR as per IMF instructions for the coming year.

31. What does the 4 per cent budget deficit represent for the present government in Islamabad?

A: It is considered sacrosanct, meaning it is regarded as sacred or inviolable for this government.

32. What factors contributed to the debt crisis in Pakistan, according to the DRMS understanding?

A: The debt crisis was triggered by the unsustainability of the level of current account balance of payments deficits and their financing pattern in the 1990s.

33. In which period did the public debt burden increase sharply, surpassing the level of the entire 1980s?

A: The public debt burden rose sharply during the 1996-99 period.

34. What was one of the major criticisms against the way Structural Adjustment Programs were imposed in Pakistan?

A: The liberalization of interest rates, which had a negative impact on the economy.

35. According to the DRMS, what happened to the share of development in total government spending since the early 1980s?

A: The share of development declined from 40 per cent in 1980 and 25 per cent in 1990 to 13 per cent in 2000 due to the increase in interest payments.

36. What is the real cost of public debt?

A: The real cost of public debt refers to the actual cost of borrowing by the government after accounting for inflation. It takes into consideration the nominal interest rate on the debt and adjusts it for the inflation rate to determine the true cost of borrowing in terms of purchasing power.

37. How was the real cost of domestic debt affected by financial sector liberalization?

A: Financial sector liberalization, initiated in 1989 with the assistance of the World Bank, led to a full market-based auction program for government borrowing. However, this liberalization was premature and ill-timed as it assumed a quick reduction in fiscal deficit to sustainable levels. Instead, it sharply raised the government interest bill. Between 1987-88 and 1993-94, interest payments on domestic debt nearly tripled, and the average nominal interest rate rose significantly. The higher interest payments made it difficult to reduce the fiscal deficit, leading to substantial borrowing from the banking system to finance the deficit.

38. How did inflation impact the real cost of government domestic debt?

A: The sharp acceleration in inflation during 1990-1996 wiped out the effect of higher nominal interest rates, resulting in a slightly negative average real interest rate on government domestic debt during that period. However, in the late 1990s, the real cost of domestic borrowing

increased to an average of 9% per annum as inflation rates dropped and nominal interest rates remained high.

39. How was the real cost of external debt calculated?

A: To estimate the real cost of external debt, the Debt Committee added the capital loss on foreign exchange to the nominal interest payment on external debt and then adjusted this nominal cost for the rate of domestic inflation. The calculations suggested that the real cost of external debt averaged 3.4% per annum during the 1980s and rose significantly to 5.4% per annum during 1996-1999.

40. How did Pakistan manage its increasing external debt burden?

A: Pakistan's external debt burden increased significantly over the years, and the country relied more on short and medium-term debt, which needed to be repaid sooner and had higher interest rates compared to longer-term debt. The country also engaged in rescheduling arrangements to manage its debt servicing obligations. However, the reliance on external financing increased, leading to more conditional ties from financiers and exacerbating the debt situation.

41. What is the main argument presented in Chapter 11 about debt and deficits in Pakistan?

A: The main argument presented in Chapter 11 is that Pakistan is caught in a deep debt trap, with increasing debt liabilities and a high fiscal deficit. The country has been borrowing heavily, but the loans have not been utilized effectively for development and poverty reduction. Instead, a

significant portion of the borrowed money has been used for non-productive purposes, such as military spending and interest payments.

42. What is the significance of the rescheduling of Pakistan's debt mentioned in the chapter?

A: The rescheduling of Pakistan's debt was significant because it provided temporary relief to the country in terms of repayment obligations. Without the rescheduling, it would have been difficult for Pakistan to come up with the additional money required for debt repayment. However, the rescheduling also contributed to the country's debt burden and the perpetuation of the debt trap.

43. According to the table presented in the chapter, what trends in external debt burden and real growth were observed during the 1996-1999 period?

A: During the 1996-1999 period, Pakistan experienced a negative real interest rate on external debt, which resulted in a significant increase in the real cost of borrowing. At the same time, real growth in the economy turned marginally positive, but the growth in foreign exchange earnings remained negligible. This combination of factors contributed to Pakistan's foreign exchange crisis during that period.

44. What factors were identified as responsible for Pakistan's high and increasing debt according to Sakib Sherani?

A: According to Sakib Sherani, the principal factors responsible for Pakistan's high and increasing debt include:

- Low savings rate and declining national savings.

- Lack of fiscal discipline and weak revenue generation.
- Large losses in the public sector that had to be bailed out.
- Decline in long-term capital inflows, leading to reliance on expensive commercial borrowing.
- Persistent large non-interest current account deficits.
- Flaws in the sequencing of reforms and high market interest rates.
- Capital flight, further contributing to the vulnerability of the external account.

45. What conclusion does the chapter draw regarding Pakistan's debt problem and the use of foreign aid?

A: The chapter concludes that Pakistan's debt problem is severe, and the accumulation of debt has not been utilized productively for growth and poverty reduction. Despite receiving considerable foreign aid, the country's debt burden has not reduced significantly, and there is little evidence to show that the aid has been utilized effectively. Instead, there are allegations of embezzlement and misappropriation of funds meant for development. The chapter suggests that accountability for the use of loans and aid is essential, rather than demanding debt write-offs.

46. What is the focus of the article "Public Debt Reconsidered"?

A: Presenting a different view on the issue of Pakistan's public debt.

According to the article, what is the current percentage of Pakistan's domestic debt compared to GDP?

A: 42%

47. What percentage of GNP does debt servicing account for each year, according to the article?

A: More than 5%

48. What is the main concern raised about the large domestic debt in Pakistan?

A: High interest payments and a large fiscal deficit each year.

49. What is the critical factor overlooked by those who advocate reducing government expenditure, as mentioned in the article?

A: The composition of government expenditure, particularly the allocation for development compared to defense.

50. According to the article, what is the main problem related to public debt?

A: The need to ensure productive use of borrowed money by the government.

51. What is the relationship between borrowing and growth discussed in the article?

A: If the real rate of economic growth exceeds the real rate of interest on government borrowing, the debt/deficit issues will diminish.

52. What is the proposed minimum requirement for government expenditure, as stated in the article?

A: The need for government expenditure to be productive and used accountably.

53. According to the article "Debt Retirement is a Waste of Money," what is the suggested use of privatization proceeds?

A: Debt retirement to address the problem of domestic debt and its high interest payments.

54. What critical point is emphasized in the article "Debt Retirement is a Waste of Money" about the fiscal deficit?

A: Even with a fiscal deficit as low as 1% of GDP, the debt will still grow and accumulate.

55. When did Pakistan come into existence as an independent state?

A: Pakistan came into existence as an independent state on 14th August 1947.

56. What was the main actor in Pakistan's political landscape during its early years?

A: The military was the most important actor in Pakistan's political landscape during its early years.

57. What was the purpose of the Basic Democracies system introduced in Pakistan in 1959?

A: The purpose of the Basic Democracies system was to create a form of devolution and decentralization in local government.

58. What was the hierarchical structure of the Basic Democracies system in Pakistan?

A: The hierarchical structure consisted of Union Councils, Town Committees, Tehsil Councils, Municipal Committees, Cantonment Boards, District Councils, and Divisional Councils.

59. How were the chairmen of Municipal Committees appointed in the Basic Democracies system?

A: The chairmen of Municipal Committees were appointed by the government.

60. What was the main criticism of the Basic Democracies system regarding its representation of the people?

A: The main criticism was that the Basic Democracies system only represented a limited form of democracy, with significant control by the bureaucracy and the government.

61. How did the military use the Basic Democracies system during General Ayub Khan's regime?

A: The military used the Basic Democracies system as an Electoral College to consolidate its own rule and to elect the President.

62. What role did the Basic Democracies system play in transforming rural economic and social structures in Pakistan?

A: The Basic Democracies system, along with Ayyub's land reforms, played a role in transforming rural economic and social structures and social relations of production.

63. What was the main focus of Ayub Khan's developmentalist regime in Pakistan?

A: Ayub Khan's developmentalist regime focused on increasing production and capital in both urban and rural areas.

64. According to the analysis in the chapter, what were the key factors influencing the evolution of the local government system in Pakistan?

A: The evolution of the local government system in Pakistan was influenced by both political changes and socio-economic ones.

65. How did the Green Revolution impact Pakistan's agriculture in the 1960s?

The Green Revolution led to the emergence of capitalist farmers and middle farmers, becoming a dominant economic and political force in agriculture and the country.

66. What were the political ambitions of the newly emerging agricultural capitalists under Ayub Khan's Basic Democracies scheme?

The emerging agricultural capitalists were accommodated in the Basic Democracies system but without real political power.

67. How did increased urbanization and rural to urban migration affect the governance structure established by Ayub Khan?

The changing social transformation created contradictions with the established governance structure, leading to its collapse.

68. Why did the democratically elected Bhutto abandon the Basic Democracies system after assuming power in 1971?

Bhutto considered the system to be breeding nepotism and corruption and reducing democracy to a farce.

69. What hindered Bhutto from introducing a system of representative local government during his tenure?

Bhutto hesitated to undertake local government reform due to the fear of losing local support to competing mass-based regional parties.

70. What was the main objective of the Local Government Ordinance (LGO) of 1979 in Pakistan?

A: The main objective of the LGO 1979 was to introduce devolution and decentralization in the form of a structure of local government.

71. How did Pakistan change between 1959 and 1979, impacting the implementation of the LGO 1979?

A: Pakistan underwent significant changes, including the secession of East Pakistan (now Bangladesh) in 1971, increased urbanization, transition from feudal agrarian structures to modern capitalist relations, and the consolidation of the middle class.

72. What were the two main tiers of the local government system introduced under the LGO 1979?

A: The local government system under the LGO 1979 had four levels of municipal government in urban areas (Town Committees, Municipal Committees, Municipal Corporations, and

Metropolitan Corporations) and three levels in rural areas (Union Councils, Tehsil/Taluka Councils, and District Councils).

73. What were the functions assigned to local governments under the LGO 1979?

A: Local governments were assigned two sets of functions: compulsory functions, which were obligatory, and optional functions, which they could choose to perform. These functions included tasks related to regulatory matters and the provision of services.

74. How were local government representatives elected under the LGO 1979?

A: Elections for all local bodies were conducted on an adult franchise basis, and representatives, including Chairmen, Vice Chairmen, and Mayors, were elected from among the members of the local council.

75. What challenges did the local government system face in Pakistan from 1979 to 1999?

A: The local government system faced challenges in terms of service delivery due to issues such as inadequate skills and attitude of local government staff, financial control by higher tiers of government, and other structural and technical limitations.

76. According to Ali Cheema and Shandana Mohmand, what was the continuity in the local governance structure during the Zia period?

A: According to Ali Cheema and Shandana Mohmand, there was little change in the functions and financial powers assigned to local government during the Zia period, indicating a continuity

in the legislative structure of local governance. The focus remained on the provision of essential municipal services, and there was no substantive empowerment of local governments.

77. What were the Local Bodies elections in Pakistan during the Zia regime?

A: The Local Bodies elections in Pakistan were held in 1979, 1983, and 1987 as per the mandate of the Local Government Ordinance (LGO) 1979 during General Zia-ul-Haq's military regime.

78. Why were non-party elections held at the local level during Zia's rule?

A: Non-party elections were held at the local level during Zia's rule to allow existing and emerging political groups to be involved in local-level issues while leaving more significant matters such as the economy, foreign policy, and federation in the hands of the military.

79. How did local government elections impact the emergence of the middle class in Pakistan?

A: The re-introduction of Local Bodies elections in Pakistan led to the political emergence and consolidation of the middle class, both urban and rural. Many individuals from the emerging middle class contested elections, which allowed them to enter politics for the first time.

80. What happened to local governments in Pakistan after the 1985 General Elections?

A: After the 1985 General Elections, which were held on a non-party basis, local governments in Pakistan became almost redundant. The focus shifted to elected representatives at the higher provincial and national levels, and local governments were dissolved in various provinces.

81. How did General Musharraf contribute to local government reforms in Pakistan in the new millennium?

A: General Musharraf initiated the Devolution Plan in 1999/2000, which established a new system of District Governments with a three-tier structure: Union, Tehsil, and District levels. Local government elections were held on a party-less basis at the Union level.

82. What were the key functions of the District Government in Pakistan's education policy implementation?

A: The key functions of the District Government in Pakistan's education policy implementation were implementing the provincial education policy through the district education policy and plan, preparing plans for the development of education in the district, and preparing the annual educational budget of the district.

83. What significant departures were made from earlier models of local government in Pakistan under the District Government system?

A: Under the District Government system in Pakistan, several provincial government functions related to the delivery of social services were devolved to the District Government. Additionally, many functionaries from the provincial administration were transferred to the local government and made accountable to the elected district level administration.

84. What were the major changes made in the District Government system concerning women's representation?

A: The District Government system introduced under General Musharraf's regime included one-third seats reserved for women. This allowed women not only to contest seats directly but also gave them one-third reserved seats, creating considerable space for women to enter the political field.

85. How did the financing of local government in Pakistan change under the 2001 Local Government System?

A: Under the 2001 Local Government System, fiscal decentralization was introduced. The Provincial Finance Commission (PFC) was established to develop transparent mechanisms for transferring revenues to local governments through formula-driven block grants. Local governments were given the power to levy certain taxes, and they also received a share of the General Sales Tax. Additionally, local governments had their own budgets and greater autonomy in financial matters compared to the earlier centralized system.

86. What was the purpose of the Devolution Plan 2000 in Pakistan?

A: The purpose of the Devolution Plan 2000 in Pakistan was to restructure the entire governance and development structure of the country to empower citizens through their local governments. It aimed to decentralize administrative, political, and financial authority to lower tiers of government.

87. What was the role of the Executive District Officer for Finance and Planning under the new system?

A: Under the new system, the Executive District Officer (EDO) for Finance and Planning at the local level was responsible for the consolidation and coordination of the development budget of the District Government.

88. How were development funds distributed in the new system of local government?

A: Development funds were distributed in the new system after deducting all liabilities and recurring costs. At least 25% of the development funds were spent through Citizen Community Boards, while the remaining 75% could be spent through the concerned local government offices.

89. What were the major differences between the old and new local government systems in Pakistan?

A: The major differences between the old and new local government systems were in terms of development planning, selection, and execution. The old system was managed by federal and provincial governments, while the new system involved collaborative and consultative processes at the district, tehsil, and union levels, with community and citizen involvement.

90. How did the military government implement the Devolution Plan 2000 in Pakistan?

A: The military government implemented the Devolution Plan 2000 to restructure the governance and development structure of Pakistan. It decentralized administrative, political, and financial functions to the local level, aiming to empower citizens through their local governments. However, there were criticisms and challenges regarding the actual implementation and political interference in the local government system.

91. What was the outcome of the three-tier local government structure in Pakistan?

A: The three-tier local government structure in Pakistan, introduced by various military regimes, faced challenges and was not fully embraced by major political forces. It suffered from bureaucratic interference, lack of political ownership, and issues with autonomy at the district level.

92. What were the main limitations faced by municipal governments in providing essential services?

A: Municipal governments in Pakistan, especially in smaller towns and cities, lacked the financial and institutional capabilities to provide essential services effectively. Many functions were restricted to larger urban centers, and the provincial governments often had to intervene to support local governments financially and technically.

93. What were the factors hindering the development potential of local governments?

A: Local governments in Pakistan faced financial constraints, limited technical capabilities, and a weak link between service provision and local taxation. Development agencies and specialized organizations often provided facilities, which undermined the role of local governments and reduced their incentive to generate additional income.

94. How did the implementation of local government systems evolve in Pakistan?

A: Pakistan witnessed three major interventions in local government systems since 1947, with varying administrative structures. These systems were introduced by different military regimes,

but their full implementation and effectiveness faced challenges due to lack of political ownership and bureaucratic interference.

95. What are the prospects for local government in Pakistan's political economy context?

A: The prospects for local government in Pakistan's political economy context remain uncertain. For local governments to work effectively, higher tiers of government must have more confidence in them, devolve power and resources from the federal level to the provincial level, and address financial and technical constraints. Without substantial steps to redefine the context of local development, local governments are likely to continue to be ineffective.

96. What are the key criticisms of the local government system in Pakistan?

A: The key criticisms of the local government system in Pakistan include neglect of the Union Council, lack of financial autonomy, ineffective monitoring mechanisms, poor auditing leading to corruption allegations, and insufficient decentralization of functions like sanitation and sewerage.

97. How did the 2001 local government system differ from the 1979 order in Pakistan?

A: The 2001 local government system in Pakistan was more radical than the 1979 order as it broke the long-standing bureaucratic control over the country's power system. It brought the police and administration partly under local governance, allowed district governments to deal with 13 subjects on the provincial list, and extended the municipal administration to rural areas.

98. What were the reasons for opposition to the 2001 local government system in Pakistan?

A: The opposition to the 2001 local government system in Pakistan came from political parties, bureaucracy, and nationalists in smaller provinces. The local representatives' powers were seen as a threat to the influence of bureaucrats and members of national and provincial assemblies. The system was also criticized for alleged corruption and poor law and order management.

99. What implications did the rollback of the 2001 local government system have in Pakistan?

A: The rollback of the 2001 local government system in Pakistan led to the potential abolishment or reduction of the supervisory role granted to districts in various departments. The system was replaced by appointing non-political administrators, raising concerns about weakening the federation and empowering the bureaucracy.

100. What are the main arguments in favor of and against the changes to the local government system in Pakistan?

A: Arguments in favor of the changes to the local government system in Pakistan include the view that the existing system became corrupt and nepotistic. The proposed amendments were aimed at regaining control of devolved departments and reducing the number of councillors.

Arguments against the changes suggest that the focus should be on making the current system more effective and that all political parties had decided not to disturb the political institutions under the Charter of Democracy.

101. What significant changes have taken place in Pakistan's governance and finances recently?

The passage of the Seventh National Finance Commission (NFC) Award and the 18th Amendment to the Constitution of Pakistan have brought significant changes to Pakistan's governance and finances. These legislative actions have given more responsibility to provinces for social sector development and strengthened decentralization and devolution of power structures.

102. How did fiscal disparities contribute to the fall of East Pakistan?

Apart from linguistic movements and civil rights infringement, fiscal disparities, including increasing inter-regional fiscal inequalities and disparities in resource distribution, contributed to the grievances in East Pakistan and led to the Six Point formula of the Awami League, fostering separatist movements.

103. What were the three important legislative developments in British India related to federalism?

The three important legislative developments in British India related to federalism were:

- The Government of India Act, 1885: Established a centralized governance structure under Crown rule.
- The Government of India Act, 1919: Introduced political, administrative, and financial reforms and assigned certain powers to provinces.

- The Government of India Act, 1935: Instituted a bicameral political system and defined revenue assignments between the centre and provinces.

104. What was the Otto Niemeyer Award of 1936?

The Otto Niemeyer Award of 1936 was an inquiry commissioned by the British Government to determine the allocation of resources between the Central and Provincial Governments of India. Its recommendations laid the groundwork for implementing provincial autonomy.

105. How did the Seventh National Finance Commission (NFC) Award and the 18th Amendment impact fiscal federalism in Pakistan?

The Seventh NFC Award and the 18th Amendment significantly changed Pakistan's fiscal federalism. They decentralized finances, gave more authority to provinces, and created horizontal equalization by strengthening decentralization and facilitating devolution of power structures.

106. What is the significance of the 1961 National Finance Commission Award?

A: The 1961 National Finance Commission (NFC) Award was established under the leadership of Chief Martial Law Administrator General Ayub Khan. It aimed to develop a revenue sharing formula and settle tax jurisdiction between the federal government and provinces in Pakistan. This Award increased the provinces' share in the federal divisible pool, giving them more financial autonomy. It introduced a mix of criteria for vertical sharing of different types of taxes, with income tax and sales tax being shared between the federation and provinces. Horizontal distribution criteria remained unchanged for the

two provinces, with East Pakistan (now Bangladesh) receiving 54% and West Pakistan (now Pakistan) receiving 46% of the divisible pool.

107. How did the Legal Framework Order (LFO) impact fiscal federalism in Pakistan?

A: The Legal Framework Order (LFO) of 1970 dissolved the "One Unit" system, restoring separate provinces in West Pakistan (present-day Pakistan) and granting them representation in the national legislature. This change led to the reestablishment of provincial autonomy and influenced the distribution of financial resources among the provinces. It also impacted the horizontal revenue-sharing formula, with East Pakistan (present-day Bangladesh) no longer being part of the equation. Additionally, the LFO's proportional representation for the two wings (East and West Pakistan) affected the allocation of seats in the National Assembly, indirectly influencing fiscal policy decisions.

108. How did the National Finance Committee of 1970 impact fiscal federalism?

A: The National Finance Committee of 1970, established under President Yahya Khan, recommended changes to the fiscal federalism system in Pakistan. It significantly increased the provinces' share in the federal divisible pool, allocating 80% of resources to them, aiming to address growing disparities among provinces and grant sub-national governments more fiscal power. This change marked a major shift in revenue sharing and financial autonomy for provinces. However, the political turmoil and subsequent events, such as the breakup of Pakistan and the establishment of Bangladesh, had a significant impact on the implementation and dynamics of these recommendations.

109. What was the impact of the dissolution of the "One Unit" system on fiscal federalism?

A: The dissolution of the "One Unit" system through the Legal Framework Order (LFO) of 1970 had a significant impact on fiscal federalism in Pakistan. It led to the restoration of separate provinces in West Pakistan and the allocation of seats based on proportionate representation. This change affected the horizontal revenue-sharing formula between the provinces, altering the distribution of resources among them. The dissolution of the "One Unit" system also contributed to the shift toward increased provincial autonomy and regional decision-making, which had implications for fiscal policies and resource management at the sub-national level.

110. When did the second phase of intergovernmental fiscal relations in Pakistan begin, and what administrative units did it cover?

A: The second phase of intergovernmental fiscal relations in Pakistan started in 1971. It covered four provinces and federating units such as FATA, Gilgit-Baltistan, and Azad Kashmir.

111. What important consensus was reached among parliamentary parties in 1972 regarding Pakistan's constitution?

A: On 17 April 1972, parliamentary parties reached a consensus on the need for a new constitution for Pakistan.

112. Which criterion was used to distribute the divisible pool resources among provinces in the National Finance Commission Award of 1974?

A: In the National Finance Commission Award of 1974, the distribution of the divisible pool resources was based on the criterion of population.

113. **What significant changes were introduced in the National Finance**

Commission Award of 1990 regarding revenue sharing?

A: The National Finance Commission Award of 1990 introduced the inclusion of excise duties on tobacco, tobacco manufactures, and sugar in the divisible pool. It also recognized the right of provinces to profits and royalties from their indigenous resources.

114. **How did the National Finance Commission Award of 1997 impact federal grants for provincial revenue deficits?**

A: The National Finance Commission Award of 1997 abolished federal grants for provincial revenue deficits, making provinces responsible for their own surpluses or deficits. However, fixed annual subventions/grants to provinces were legitimized.

115. **What principle was used to determine the distribution of gas development surcharge and hydro-electricity profits to provinces in the 1990 Award?**

A: The distribution of gas development surcharge and hydro-electricity profits to provinces in the 1990 Award was based on the principle of production, with provinces receiving revenues directly from the collecting agency.

116. **How did the National Finance Commission Awards impact the fiscal space of relatively less-developed provinces NWFP and Balochistan?**

A: The National Finance Commission Awards increased the fiscal space of NWFP and Balochistan through straight transfers, where revenues from their indigenous resources were credited directly to their provincial accounts.

117. **Who had the privilege of instituting the National Finance Commission multiple times during their rule in Pakistan?**

A: All three dictators—Ayub, Zia, and Musharraf—had the privilege of instituting the National Finance Commission multiple times during their rule.

118. What constitutional responsibility does the President have regarding the National Finance Commission?

A: The President is constitutionally responsible for constituting the National Finance Commission every five years.

119. What significant role did the National Finance Commission Awards play in Pakistan's fiscal federalism?

A: The National Finance Commission Awards played a crucial role in shaping the intergovernmental fiscal relations between the federation and provinces in Pakistan, addressing issues related to revenue sharing and distribution among various units of the country.

120. What is the National Finance Commission (NFC)?

The National Finance Commission (NFC) is a constitutional body in Pakistan responsible for formulating the distribution of financial resources between the federal government and the provincial governments.

121. What was the significant change in the NFC Award of 1990?

The 1990 NFC Award expanded the divisible pool by including all taxes, including custom duties. It also decreased the vertical share of provinces from 80% to 37.5%.

122. What was the major shift in the NFC Award of 2010?

The 2010 NFC Award introduced multiple criteria for revenue distribution, not solely based on population. It led to Punjab sacrificing a portion of its share, resulting in other provinces gaining more.

123. How did the 2010 NFC Award affect fiscal federalism?

The 2010 NFC Award shifted power and resources to the provinces, reducing the federal government's dominance in fiscal policy. Provinces gained a higher share from the divisible pool, leading to increased expenditures and responsibility for provincial governments.

124. What challenges does Pakistan face in fiscal federalism?

Pakistan faces challenges in maintaining fiscal discipline and macroeconomic stability, as the federal government has to manage rigid expenditures while its share in the tax pool decreases. There is a need for proper allocation of responsibilities and resources between the federal and provincial governments.

125. What are the implications of the 7th NFC Award and the 18th Amendment on provincial autonomy in Pakistan's governance?

A: The 7th NFC Award and the 18th Amendment have advanced provincial autonomy and devolution, but they have also introduced complexity and challenges to the governance and fiscal framework.

126. How was the increase in resource transfers to provinces under the 7th NFC Award planned to be financed?

A: The increase in resource transfers was intended to be financed through the introduction of an integrated value-added tax (VAT) and the transfer of expenditure obligations from the federal budget to provinces.

127. **What challenges emerged in the implementation of the 7th NFC Award's resource transfers to provinces?**

A: The transfers under the NFC Award occurred without the launch of an integrated VAT or meaningful fiscal effort by provinces. Devolved functions were transferred without expenditure obligations, resulting in a strain on the federal budget.

128. **How did the lack of fiscal effort and preparation by provinces impact the overall fiscal situation?**

A: The lack of fiscal effort and preparation, along with inadequate capacity to handle devolved functions, created the potential for a permanent 'structural' fiscal deficit.

129. **What is a significant concern regarding service delivery in the context of devolution?**

A: Provinces unwilling to finance key devolved functions, coupled with constraints on the federal budget, could lead to a collapse in service delivery to citizens.

130. **What fundamental weakness in the devolution exercise's formulation stage did the author highlight?**

A: The author pointed out the oversight of provincial capacities to absorb additional resources and the absence of a roadmap to build those capacities before functions are transferred.

131. What recommendation does the author make to improve the fiscal planning framework post-18th Amendment?

A: The author suggests synchronizing five government budgets (one federal and four provincial) through the Council of Common Interests (CCI) for a consolidated fiscal framework.

132. What is the suggested 'trigger' for resuming NFC transfers to provinces?

A: Resuming NFC transfers could be triggered by provinces achieving a tax collection equal to one percent of GDP.

133. What role does revenue generation and collection play in provincial provision of public goods?

A: Revenue generation and collection, mainly through federal transfers, are crucial for provinces to provide public goods and address fiscal deficits.

134. What criterion does the NFC 2010 Award use to distribute a portion of the divisible pool among provinces?

A: The NFC 2010 Award distributes a portion of the divisible pool based on the criterion of poverty and backwardness.

135. What is the predicted poverty incidence in Pakistan for the year 2010-11?

A: The predicted poverty incidence in Pakistan for 2010-11 was 36.79%.

136. What were the poverty percentages for different regions within Pakistan?

A: In 2010-11, the poverty percentages were as follows:

- Punjab: 35.00%
- Sindh: 36.27%
- Khyber Pakhtunkhwa: 45.71%
- Balochistan: 45.68%

137. Which provinces contributed the most to tax collection and generation in Pakistan?

A: Sindh and Punjab, the two developed provinces, contributed significantly to tax collection and generation, accounting for 96.35% on average from 2001-12.

138. What were the dominant sources of revenue for provinces in Pakistan?

A: Sindh had a dominance in revenue collection, particularly due to its control over port resources, which facilitated the collection of indirect taxes like custom sales tax and FED on imports.

139. How did major cities contribute to tax collection in Pakistan?

A: Karachi, Lahore, Rawalpindi, Multan, and Peshawar collectively accounted for a substantial portion of tax collection, with Karachi being the highest contributor.

140. What is the concept of vertical fiscal imbalance?

A: Vertical fiscal imbalance refers to the mismatch between the revenue and expenditures of different levels of government within a country, such as the national government and sub-national governments.

141. How did the National Finance Commission (NFC) Awards in India address fiscal imbalances?

A: The Indian Finance Commission Awards introduced criteria like income distance and development gap to address fiscal imbalances between states. These criteria aimed to allocate resources more equitably based on various parameters.

142. What is the significance of the inverse population density criterion in fiscal allocation?

A: The inverse population density criterion considers the population density of different regions, accounting for the cost of providing public goods and services in sparsely populated areas. It was included in the NFC 2010 Award in Pakistan to address disparities in service delivery costs.

143. What is the main recommendation for addressing fiscal imbalances and improving intergovernmental fiscal relations?

A: The main recommendation is to broaden the tax base and increase own-source revenue efforts by sub-national governments, thereby reducing reliance on federal transfers and improving fiscal autonomy.

144. How did Pakistan's fiscal allocation criteria compare to those of other countries?

A: Pakistan's criteria included factors like population, poverty and backwardness, revenue collection and generation, and inverse population density. These criteria were somewhat different from those used in other countries, which often considered parameters like development gap, per capita income, and area.

145. What is the significance of a rationalized transfers system in Pakistan's economy?

A: A rationalized transfers system would create distributive efficiency, allocative efficiency, and achieve fiscal equalization objectives.

146. Prior to the 7th NFC Award, who was responsible for collecting the sales tax in Pakistan, despite the Constitutional specification?

A: The federal government was responsible for collecting the sales tax in Pakistan before the 7th NFC Award, despite it being specified as a provincial responsibility.

147. What are the three policy options discussed for the implementation of the General Sales Tax (GST) in Pakistan?

A: The three policy options are: integrating GST into the divisible pool, collecting GST by the federal government and returning it to provinces, and allowing richer provinces to share GST with less revenue-generating provinces.

148. What is the potential downside of provincial governments substituting federal transfers for their own fiscal effort?

A: Substituting federal transfers for their own fiscal effort can lead to fiscal indiscipline and misuse of resources by sub-national governments.

149. How does the concept of fiscal discipline impact the allocation of national resources in Pakistan?

A: Fiscal discipline encourages sub-national governments to avoid high budget deficits, leading to optimized allocation of national resources.

150. What is the rationale behind encouraging performance-based conditional grants in Pakistan?

A: Performance-based conditional grants help the federal government manage provincial revenue deficits more effectively.

151. How does the fiscal equalization index (FEI) contribute to fiscal analysis?

A: The FEI helps analyze the distribution of federal transfers among provinces and assesses fiscal equalization.

152. What impact does the structural change in criteria-based transfers have on less-developed provinces?

A: The structural change results in less-developed provinces receiving a higher share of transfers, helping to compensate for disparities.

153. What is the purpose of using the concentration index in the context of fiscal federalism?

A: The concentration index is used to determine whether fiscal transfers achieve equalization among provinces.

154. How does horizontal fiscal equalization contribute to poverty reduction in Pakistan?

A: Horizontal fiscal equalization aims to reduce inter-regional disparities and improve the provision of public goods, potentially aiding in poverty reduction.

155. What is the focus of the discussion in this chapter?

A: The chapter discusses fiscal federalism in Pakistan, specifically the issues related to the distribution of financial resources between the federal government and provincial governments.

156. What are NFC transfers and how have they been distributed in Pakistan?

A: NFC (National Finance Commission) transfers are financial allocations from the federal government to provincial governments to ensure equitable distribution of resources. The

distribution has varied over different years, with some periods showing equalization and others leading to disequalization.

157. How is the concentration index used to analyze fiscal transfers?

A: The concentration index is a measure used to assess the distribution of fiscal transfers. A negative index indicates equalization, while a positive index implies concentration. The chapter uses this index to study the distribution of NFC transfers among provinces in Pakistan.

158. What impact did the 18th Amendment have on fiscal federalism in Pakistan?

A: The 18th Amendment to the Constitution of Pakistan brought about significant changes to fiscal federalism by abolishing the Concurrent List and devolving many subjects from the federal government to provincial governments. This amendment aimed to empower provinces and enhance their autonomy.

159. How has the composition of taxes in Pakistan changed over the years?

A: The composition of taxes in Pakistan has shifted from a dominance of indirect taxes to a greater reliance on direct taxes. While this change is desirable for equity, challenges remain in broadening the tax base and reducing the burden of indirect taxes.

160. What role does agricultural taxation play in fiscal federalism?

A: Agricultural taxation is a complex and politically sensitive issue in Pakistan. While agricultural income is a provincial matter, its inclusion in the revenue agenda could impact fiscal transfers and the revenue efforts of provincial governments.

161. How does the chapter assess the impact of fiscal transfers on different provinces?

A: The chapter uses various indices, including the Fiscal Equalization Index (FEI), to analyze the impact of fiscal transfers on different provinces. These indices help measure equalization or concentration of resources among provinces.

162. What changes did the 18th Amendment bring to legislative powers and functional responsibilities?

A: The 18th Amendment abolished the Concurrent List and devolved many subjects from the federal government to provincial governments. This transfer of functional responsibilities aimed to enhance provincial autonomy and decision-making.

163. What is the significance of the 18th Amendment for Pakistan's fiscal federalism?

A: The 18th Amendment played a significant role in strengthening fiscal federalism in Pakistan by devolving more powers and responsibilities to the provinces. It aimed to address issues of equity, autonomy, and decentralization in the distribution of resources and governance.

164. How does the chapter suggest improving fiscal equalization and decentralization?

A: The chapter highlights the importance of broadening the tax base, reducing reliance on regressive taxes, and implementing effective taxation reforms. It also emphasizes the need for

inclusive policies to ensure that fiscal transfers benefit all provinces and promote balanced development.

- The First Phase (1947-1974): After independence, Pakistan lacked a central bank and a well-established banking system. The Reserve Bank of India continued to operate as a currency and banking authority for Pakistan until June 1948. Only a few scheduled bank branches were located in Pakistan at the time of Partition, and the number decreased further after independence.
- Communal Violence and Migration: The communal violence and migration following Partition had a significant impact on the financial sector. Many Hindus, who controlled a large part of industry and commerce, migrated to India, leading to the closure of commercial banks and a shortage of credit for trade, commerce, and agriculture.
- Establishment of the State Bank of Pakistan: The State Bank of Pakistan was established on July 1, 1948, becoming the sole note-issuing authority. However, the government did not have a note printing press at that time.

Overall, the early years after independence presented significant challenges for Pakistan's banking sector due to the disruption caused by Partition. The State Bank of Pakistan played a crucial role in building the country's banking system and overcoming initial difficulties.

165. What was the major focus of foreign banks operating in Pakistan in the early years?

- Foreign banks in Pakistan mainly focused on financing import and export trade.

166. What percentage of total bank deposits in Pakistan was held by foreign banks in 1948?

- As much as 73% of total bank deposits in Pakistan were held by foreign banks in 1948.

167. What was the primary role of the National Bank of Pakistan until June 1950?

- The National Bank of Pakistan's role was primarily restricted to financing jute operations.

168. What policy did the State Bank of Pakistan implement to encourage the expansion of banking branches?

- The State Bank of Pakistan implemented a policy of setting quotas for new branch openings, especially in less economically viable regions.

169. Why were most new bank branches opened in West Pakistan in the 1960s?

- Most new branches were opened in West Pakistan because that region was the center of industry, commerce, and agriculture production.

170. How did the distribution of bank credit in Pakistan reflect the influence of government policies?

- The distribution of bank credit followed government policies that favored bigger parties and industries, though there was a gradual shift towards smaller parties.

171. What was the significance of the growth of bank deposits in the period 1948-54?

- The growth of bank deposits was closely linked to the revival of economic activity, rehabilitation of the banking sector, inflow of Muslim capital, and increased development activity.

172. Which economic sector received the largest share of advances from banks in Pakistan in 1953?

- Commerce received the largest share of advances from banks in Pakistan in 1953, accounting for 48% of all advances made.

173. How did the pattern of credit disbursement change in the 1960s and 1970s in Pakistan?

- The pattern of credit disbursement shifted towards a greater focus on financing manufacturing as the industrial sector progressed.

174. What was the observed relationship between economic growth and the growth of the banking sector in Pakistan?

- There is a close relationship between economic growth and the growth of the banking sector, where the sizes of deposits, types of credit available, and locations of bank branches influence economic development.

175. What are the major sectors of Pakistan's economy?

A: The major sectors of Pakistan's economy are agriculture, forestry, fishing, and hunting; commerce; and manufacturing.

176. How has the distribution of bank credit changed over the years in Pakistan?

A: The distribution of bank credit in Pakistan has changed over the years. In 1953, agriculture, forestry, fishing, and hunting received 24% of the credit, commerce received 55%, and manufacturing received 21%. By 1972, agriculture, forestry, fishing, and

hunting's share declined to 10%, while manufacturing increased to 78%, and commerce decreased to 12%. In 2011, manufacturing accounted for 39% of credit, commerce received 27%, and agriculture, forestry, fishing, and hunting received 10%.

177. When and why were the banks nationalized in Pakistan?

A: The banks in Pakistan were nationalized on January 1, 1974, by the Bhutto government. The nationalization was done to bring the banking sector under exclusive ownership, management, and control of the federal government. The roots of nationalization can be traced back to the 1960s, where malpractices in the banking sector were identified, and there was a maldistribution of credit amongst different segments of the economy.

178. How did the nationalization of banks impact Pakistan's economy?

A: The nationalization of banks in Pakistan had both positive and negative impacts on the economy. On the positive side, it led to the opening of branches in previously underserved areas, bringing more people into the formal banking system. However, there were concerns about political pressures influencing credit allocation, leading to inefficiencies and poor loan recovery. Nationalization also led to concentration of economic power in the hands of the government, raising issues of misuse and inefficiency in some cases.

179. How has Islamic banking evolved in Pakistan?

A: Islamic banking was introduced in Pakistan in 1979 as part of the Islamization process. It involved eliminating interest (riba) from financial transactions and introducing Islamic modes of financing like musharakah, murabaha, and mudarabah. From 1985 onwards, all banks were prohibited from accepting interest-bearing deposits, except for

foreign currency deposits. Instead, they offered profit and loss sharing deposits. Islamic banking has grown steadily in Pakistan over the years and plays a significant role in the financial system.

180. What factors contributed to the contraction of Pakistan's overall economy and the Non-Banking Financial Institutions (NBFIs) sector?

A: Numerous political and economic crises led to capital flight and a decrease in borrowers, which caused a contraction in both the overall economy and the NBFIs sector.

181. What potential for development do most commercial banks in Pakistan possess?

A: Most commercial banks have large asset bases, providing them with significant potential to develop medium- and long-term lending facilities.

182. What hinders the potential for medium- and long-term lending by banks in Pakistan?

A: Constraints in the present banking structure, including large holdings of government securities that cannot be lent or borrowed against, impede the potential for medium- and long-term lending.

183. What role did Development Finance Institutions (DFIs) play in Pakistan's socio-economic objectives?

A: DFIs were major channels for routing development funds to the private manufacturing sector, promoting industries in less developed areas, encouraging new entrepreneurs, and achieving wider diffusion of industrial ownership.

184. What were some challenges faced by nationalized commercial banks (NCBs) in Pakistan's banking sector?

A: NCBs were constrained by bureaucratic management, centralized operations, and political pressures to provide loans that didn't align with financial viability criteria.

185. What were the key reasons behind the problems faced by Development Finance Institutions (DFIs) in Pakistan?

A: Poor management, excessive loans without proper due diligence, and lack of efforts to inject fresh equity or soft loans into DFIs were key reasons for their problems.

186. What impact did foreign banks have on Pakistan's banking sector in terms of performance and efficiency?

A: Foreign banks showed higher growth rates and efficiency compared to state-owned nationalized commercial banks and even privatized banks.

187. What challenges did nationalized banks in Pakistan face in terms of providing directed credit?

A: Nationalized banks were directed by the government to provide credit to specific sectors and at specific times, often irrespective of economic and financial considerations, leading to potential bad loans.

188. What changes have occurred in Pakistan's banking sector since the late-1990s?

A: There has been a shift towards fewer nationalized banks, increased specialization, private sector involvement, and a decline in the number of foreign banks due to security concerns and economic conditions.

189. What potential risks are associated with market-determined credit allocation in Pakistan?

A: Market-determined credit allocation could lead to non-productive areas attracting larger loans, potentially creating financial bubbles.

190. What was the profitability trend of Pakistan's banking sector in 2011?

A: The banking sector in Pakistan experienced record-breaking profits in 2011, with a combined profitability of Rs. 117.5 billion, up by an astonishing 84% compared to the previous year. Even excluding banks with losses, the sector's profitability still increased by a respectable 27%.

191. What contributed to the increase in the banking sector's profits?

A: The increase in profits was attributed to several factors, including the turnaround of banks that were previously facing losses, dramatic growth in many banks, and an increase in investments in treasury bonds, effectively lending money to the government.

192. How did banks improve their balance sheets and reduce bad loans?

A: Banks improved their balance sheets by significantly reducing provisioning for loan losses and getting rid of bad loans. Many banks claimed to have 'clean' balance sheets after addressing their bad loans.

193. How did the State Bank of Pakistan view the banks' lending behavior?

A: The State Bank expressed concern that many banks had stopped lending to the private sector, leading to a decline in their function as financial intermediaries in the economy. The State Bank urged banks to pay a higher minimum rate of return on savings accounts.

194. Did experts believe that the profitability of the banking sector would be affected?

A: Most analysts believed that the effect of higher minimum rates of return on savings accounts would be marginal and offset by lower losses from bad loans. The banking

sector's profitability might not be sustainable in the long term, but it was expected to continue for some time.

195. How many Pakistanis have access to formal financial institutions?

A: Only around 14% of Pakistanis have access to formal financial institutions, while 40% have no access to either formal or informal financial systems.

196. What percentage of small and medium enterprises (SMEs) have access to formal credit?

A: Despite playing a key role in economic development, only around 7% of SMEs in Pakistan have access to formal credit, and they account for only 16% of total credit.

197. How many people are actively investing in the Karachi Stock Exchange?

A: The Karachi Stock Exchange has only about 135,000 active investors, which is less than 0.01% of the population.

198. What factors have contributed to the limited investor base in Pakistan's stock market?

A: Factors such as economic, political, and security instability, high risk associated with the market, and a speculative investor mindset have contributed to the limited investor base in Pakistan's stock market.

199. What measures were suggested to improve the stock market's depth and breadth?

A: Suggestions to improve the stock market's depth and breadth included offering leveraged positions, margin financing, margin trading, options, and futures to investors. These options could enhance liquidity and facilitate efficient price discovery.

200. What is the dominant stock exchange in Pakistan and its trading activity?

A: The Karachi Stock Exchange (KSE) dominates with over 60% of trading activity.

201. How has stock market activity changed over the years in Pakistan?

A: Stock market activity has grown substantially over the years, with the number of listed companies fluctuating and stock market indices experiencing both highs and lows.

202. What was the State Bank of Pakistan General Index of Share Prices in 1990/1 and 2002?

A: The index was 100 in 1990/1 and rose to 139 in June 2002.

203. How did the Karachi Stock Exchange's market capitalization change from 1994 to 2004?

A: The capitalized value of shares increased from Rs. 404 billion in June 1994 to Rs. 1346 billion by March 2004.

204. What factors contributed to the stock market boom in Pakistan in 2003?

A: Factors contributing to the 2003 stock market boom included large public offerings, increased foreign investments, and improved political stability.

205. How did home remittances affect Pakistan's stock market?

A: There was a correlation between home remittances and the stock market's performance, with remittances playing a role in driving the stock market's growth.

206. What challenges and issues were faced by Pakistan's stock market?

A: The stock market faced challenges such as lack of transparency, insider trading, limited investor access, and the dominance of a few large companies.

207. What role did institutional investors play in Pakistan's equities market?

A: Institutional investors, such as investment companies and pension funds, played a limited role in the development of Pakistan's equities market.

208. Was the stock market considered a reliable indicator of economic development in Pakistan?

A: The stock market's reliability as an indicator of economic development in Pakistan was questioned, and its behavior often didn't reflect changes in economic fundamentals.

209. How did the growth of the banking sector impact industrialization in Pakistan?

A: The growth of the banking sector played a significant role in industrialization and economic development in Pakistan, although challenges persisted in the sector.

210. What factor challenges the claim that stock markets in developing countries are driven by 'fundamentals'?

A: Weak regulatory and contractual enforcement.

211. How do colluding brokers manipulate stock prices according to the passage?

A: They trade amongst themselves to artificially raise prices when prices are low, and then exit, leaving naive traders to suffer when prices fall.

212. What do principal brokers achieve by trading primarily for themselves or a few investors?

A: Principal brokers earn significantly higher returns compared to intermediaries.

213. How do trading patterns of brokers support the idea of price manipulation?

A: Some brokers engage in heavy back-and-forth trading of a stock, suggesting price manipulation.

214. What pattern of trading days has predictive power for future stock returns?

A: Days when mostly principal brokers trade predict positive returns, while days when mostly outside traders trade predict negative returns.

215. **What is the main reason Pakistan failed to qualify for reclassification to the Emerging Markets Index?**

A: The decline in free-float of potential companies below MSCI requirements.

216. **What impact did the downgrade to the frontier markets index have on the Karachi Stock Exchange?**

A: It led to a decrease in free-float capitalization and declining trading activity.

217. **What impact did high inflation and an interest rate increase have on the Karachi Stock Exchange in 2008?**

A: It resulted in a crash and removal of Pakistan from the list of emerging markets.

218. **Why did Zafar Moti consider the index downgrade a "blessing in disguise"?**

A: It attracted more foreign investment to the Karachi Stock Exchange.

219. **How did the presence of mostly outside traders predict future returns according to the passage?**

A: It predicted negative future returns as prices kept dropping, and principal brokers slowly bought back stocks.

220. **What was the performance of the Karachi Stock Exchange (KSE) in 2012?**

A: The Karachi Stock Exchange (KSE) had a remarkable performance in 2012, with a 49% return and being one of the top five performing markets globally.

221. **What contributed to the KSE's growth in 2012?**

A: The KSE's growth was partly attributed to a government amnesty that allowed people with undeclared assets ("black money") to invest freely in the market. Additionally, a depreciating Pakistani rupee attracted foreign investors.

222. **How did the government's amnesty impact the stock market?**

A: The government's amnesty allowed individuals with undeclared assets to invest in the stock market without questions about the source of their funds, leading to increased trading volume and market growth.

223. What concerns were raised about the Karachi stock market's growth?

A: Concerns were raised about insider trading, market manipulation, and lack of effective regulation. The market's success was overshadowed by allegations of corruption and financial misconduct.

224. How did the Securities and Exchange Commission of Pakistan (SECP) respond to violations?

A: The SECP found violations of securities laws and issued fines in some cases, but critics argued that these actions were insufficient and that more substantial penalties and criminal actions should have been taken.

225. Why did the KSE seek a foreign partner and embark on demutualization?

A: The KSE aimed to separate the commercial and regulatory functions of the market and sought a foreign partner to enhance its governance and oversight. Demutualization was seen as a step toward reform.

226. What role do capital markets play in economic development?

A: Capital markets play a vital role in mobilizing and allocating funds for productive investments, which can drive economic growth. They provide a platform for raising long-term funds and connecting investors with businesses.

227. How do commercial banks participate in capital markets?

A: Commercial banks provide medium and long-term loans for investment projects, often playing a significant role in funding industrial development. However, their involvement in capital markets may be limited by factors like liquidity risks and lack of expertise.

228. What challenges did Pakistan face in developing its capital markets?

A: Pakistan's capital markets faced challenges such as limited liquidity, lack of investor participation, and dominance of debt financing over equity. The absence of a well-developed private sector debt securities market hindered investment diversification.

229. What is the significance of a developed equity market for Pakistan's economy?

A: A developed equity market can help balance capital structures, reduce dependence on debt financing, and attract more equity funding. It can also mobilize savings for productive investments and contribute to economic growth.

230. What is the role of capital markets in Pakistan's economy?

A: The growth of capital markets in Pakistan is crucial for achieving ambitious economic objectives. It is believed that both the size and depth of these markets need to expand to facilitate companies' access to affordable funds. While Pakistan has tapped into global capital markets, heavy reliance on them is cautioned due to limited appetite and stability concerns.

231. What challenges does Pakistan face in developing its capital markets?

A: Pakistan faces challenges in developing its capital markets, such as limited domestic fundraising capacity, instability, and liquidity concerns. While recent regulatory changes suggest government commitment, it's recognized that the equity market may remain

larger than the debt market. Efforts are being made to broaden the investor base and introduce new products.

232. How does John Maynard Keynes view the stock market and stock pricing?

A: Keynes questions the logic of stock markets and pricing, highlighting the role of mass psychology and speculative behavior. He suggests that stock markets are influenced by waves of sentiment, often lacking strong roots of conviction. He also critiques the behavior of professional investors who focus on short-term valuation changes rather than long-term prospects.

233. What is the view on whether developing countries should encourage stock markets?

A: There is debate about whether developing countries should encourage stock markets for economic development. While conventional wisdom suggests active equity markets are essential, some experts, like Professor Ajit Singh, argue that stock markets may have negative effects, such as speculation, short-termism, and inefficient resource allocation. Bank-based financial systems are seen as preferable in some cases, but regulation and oversight are crucial.

234. What policy proposals are suggested for developing countries regarding stock markets?

A: Developing countries should consider policy proposals to mitigate the negative effects of stock markets. These include schemes to reduce share turnover through taxation and careful management of a prospective market for corporate control. The aim is to insulate the real industrial economy from the potentially harmful influences of stock market dynamics.

235. What are the issues in Pakistan's economy?

A: Some of the key issues in Pakistan's economy include low savings rate, high inflation, excessive government borrowing, and financial sector reforms.

236. How is Pakistan's monetary policy managed?

A: Pakistan's monetary policy has undergone transformation from direct government controls to a more market-based approach. The State Bank of Pakistan formulates and executes the monetary policy with a focus on regulating money supply, interest rates, and credit distribution.

237. How does the National Credit Consultative Council influence monetary policy in Pakistan?

A: The National Credit Consultative Council plays a role in determining the distribution of credit in Pakistan's economy and making credit available to different sectors. It recommends an Annual Credit Plan, which sets specific targets for various sectors, influencing the monetary expansion for the year.

238. What are the consequences of excessive government borrowing in Pakistan?

A: Excessive government borrowing can lead to an increase in money supply, contributing to inflation and crowding out the private sector. It can also put pressure on the balance of payments and foreign exchange reserves.

239. How autonomous is the State Bank of Pakistan in deciding monetary policy?

A: The State Bank of Pakistan is intended to be autonomous in formulating and implementing monetary policy. However, there have been concerns that political pressures and other factors have influenced its decisions, impacting its independence.

240. What are the recommended steps to increase Pakistan's savings rate?

A: Increasing Pakistan's savings rate requires structural reforms, tax reforms, and effective expenditure control by the government. Additionally, policies that encourage private savings and investments can also play a significant role.

241. Is inflation always a monetary phenomenon in Pakistan?

A: Inflation in Pakistan has often been associated with excessive monetary growth, but other factors like fiscal policies, external shocks, and supply-side issues can also contribute to inflationary pressures.

242. What was the state of Pakistan's financial sector between 1972 and 1991?

A: During that period, the financial sector in Pakistan was characterized by direct controls on interest rate movements, credit ceilings, high reserve requirements, segmented financial markets, and underdeveloped banking systems. Commercial banks, most of which were government-owned, were required to invest a significant portion of their deposits in government-issued Treasury Bills at fixed rates of return.

243. What were the main mechanisms of monetary policy and management between 1972 and 1991?

A: The main mechanisms of monetary policy and management during that period included credit budgeting, credit ceilings, budget subsidies, credit floors, refinancing facilities, cash reserves, and liquidity requirements. These direct control measures were used to regulate the volume, cost, and allocation of credit.

244. What were the challenges faced by Pakistan's financial sector during that time?

A: The financial sector faced several challenges, such as excess liquidity due to credit ceilings, non-performing loans based on political and uneconomic considerations,

segmentation of the financial market, lack of cash management control, and short-term maturity of government debt, leading to inflexibility in debt management.

245. What were the government's objectives in implementing financial sector reforms in Pakistan?

A: The government's objectives in implementing financial sector reforms were to remove distortions and segmentation from financial markets, switch from administered interest rates to market-based interest rate determination, allocate credit based on market forces, establish a secondary market for government securities, strengthen and privatize banks, and improve prudential regulations and supervision of financial institutions.

246. How did the financial sector reforms impact the money market and monetary policy in Pakistan?

A: The financial sector reforms led to the removal of credit ceilings, the introduction of auctioning government debt instruments, and the establishment of a market-determined money market. Open market operations became the major instrument of market-based monetary management, and banks could charge their own lending rates based on market forces, leading to a more market-oriented financial system.

247. What are some of the issues in Pakistan's economy?

A: Some issues in Pakistan's economy include financial liberalization, market failures, macroeconomic instability, limited access to credit for disadvantaged groups, and the lack of a well-functioning secondary market for government debt.

248. What has the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) criticized in the region?

A: UNESCAP has criticized the imposition of Structural Adjustment Programmes in the region. It also warns about the risks of financial sector reforms, particularly the opening up of capital markets, which can lead to greater macroeconomic instability and challenges in monetary and exchange rate policies.

249. How does the banking industry in the Third World differ from developed countries?

A: The banking industry in the Third World is often characterized by an oligopolistic structure, where a few large banks dominate the market. For example, in some Third World countries like Indonesia, Malaysia, Taiwan, and Thailand, the four largest banks held a significant share (around 60 to 65%) of the total assets of the banking system in 1987.

250. What was the motivation behind the establishment of specialized financial institutions and nationalization of commercial banks in developing countries?

A: The establishment of specialized financial institutions and nationalization of commercial banks in developing countries was aimed at addressing the issue of limited access to financial services for the rural-agricultural sectors. The existing or emerging banking and financial institutions in the private sector primarily catered to the needs of the urban sector, leaving the rural-agricultural sector underserved.

251. What are the consequences of a more market-based financial system?

A: A more market-based financial system can lead to increased exposure to various forms of instability, such as proliferation of financial institutions with unbalanced portfolios of assets and liabilities. Additionally, capital markets are known for booms and busts unrelated to market fundamentals, often caused by speculative runs. Increased financial liberalization may also lead to currency substitution, reducing a government's control over its own money supply.

252. What is the current trend in Pakistan's monetary policy and money supply?

A: Pakistan has undergone financial sector reforms since the early 1990s, moving towards a more market-based structure of credit availability in the economy. Credit ceilings were replaced by a credit-deposit ratio (CDR), which was later abolished. The State Bank of Pakistan has been using market mechanisms for monetary policy, and interest rates have been decontrolled to a large extent. The financial sector has seen an expansion, and banks have increased their profits due to the reforms.

253. What are the inflation trends in Pakistan over the years?

A: Historically, Pakistan's inflation rate has been relatively low. It was around 3.3% in the 1960s, increased to 11.9% in the 1970s, and then decreased to an average of 7.5% in the 1980s. Inflation became a matter of concern in the early 1990s but fell again at the end of the 1990s to around 3%.

254. What are the key factors responsible for inflation in Pakistan's economy?

A: The key factors responsible for inflation in Pakistan's economy include supply shocks, monetary policy, tax policy, external shocks (imported inflation), pricing policy (procurement prices and administered prices of utilities), and inflationary expectations.

255. What is the role of monetary supply in Pakistan's inflation?

A: Contrary to conventional views, empirical studies suggest that monetary supply (money expansion) in Pakistan does not have a significant impact on overall inflation. Instead, factors like procurement prices, particularly of wheat, and administered prices of fuel, gas, and electricity play a more critical role in driving inflation.

256. How did the inflation rate change during the 1990s in Pakistan?

A: During the 1990s, the inflation rate in Pakistan was relatively high. It fell to very low levels after 1998/9 due to factors such as slowing down of aggregate demand, devaluation of the Pakistani rupee, and measures taken to address inflationary pressures.

257. What were the key policy variables affecting inflation in Pakistan during the mid-1990s?

A: Key policy variables affecting inflation in Pakistan during the mid-1990s were procurement prices, particularly for wheat, and administered prices of utilities like fuel, gas, and electricity. Indirect taxes and inflationary expectations also contributed to the inflationary pressures.

258. How did the inflation rate change after 1998 in Pakistan?

A: After 1998, the inflation rate in Pakistan started to fall. This was due to a considerable slowing down of aggregate demand, devaluation of the Pakistani rupee, and measures taken to address inflationary pressures.

259. What are the main factors contributing to inflation in Pakistan's economy?

A: The main factors contributing to inflation in Pakistan's economy include supply shocks, monetary policy, tax policy, external price shocks (such as changes in global oil prices), and expectations of inflation.

260. How did high oil prices impact inflation in Pakistan?

A: High oil prices, especially since 2008, led to inflation being passed on to consumers in Pakistan. Political factors also played a role, as the government initially withheld passing on international oil price rises to consumers before eventually adjusting domestic prices.

261. What role did food inflation play in Pakistan's inflation rates?

A: Food inflation, along with the rise in petroleum prices, became a major driver of domestic inflation in Pakistan. Global diversion of foodstuff to produce biofuels also contributed to rising food prices after 2008.

262. Why is Pakistan's savings rate considered low, and how does it affect the economy?

A: Pakistan's savings rate has historically been low due to factors such as low real interest rates, financial underdevelopment, and lack of depth in the financial sector. The low

savings rate is considered a structural macroeconomic problem that hampers capital formation and economic growth.

263. What are the two major schools of thought explaining low savings in Pakistan?

A: The financial repression school argues that low real interest rates and high inflation rates hinder savings. On the other hand, the financial structure school believes that underdeveloped financial sectors with limited assets and institutions discourage savings and investment.

264. How has monetary policy in Pakistan been responding to inflation and economic growth?

A: Pakistan's monetary policy has aimed to strike a balance between controlling inflation and promoting economic growth. The central bank has sought to regulate interest rates and credit flow to influence inflation and economic activity. However, the effectiveness of these measures is subject to debate.

265. What is the analysis of Pakistan's monetary policy by Sajjad Akhtar?

A: Sajjad Akhtar analyzes Pakistan's monetary policy, noting that recent downward adjustments in policy rates mark the beginning of an era of easy monetary policy. The debate revolves around whether this easing will fuel inflation more than it will promote growth. The analysis suggests that managing easy monetary policy requires balancing growth boost against potential inflation costs.

266. How have tightening and easing cycles in Pakistan's policy rates been conducted in the last decade?

A: The tightening and easing cycles of policy rates in Pakistan over the last ten years have shown that easing cycles were generally shorter and faster than tightening cycles. The policy rate decreased from 12% in June/July 2008 to 7.5% over 18 months, while the subsequent increase to 14% took four years. Various factors, including inflation trends, growth prospects, and exchange rates, influence the duration and extent of these cycles.

267. What impact do lower interest rates have on economic growth and manufacturing?

A: An analysis indicates that a 1 percentage point decline in the policy rate leads to a 0.20% increase in the annual growth rate of manufacturing and a 0.27% increase in GDP growth rate, based on historical data. Lower interest rates are believed to promote growth, especially in manufacturing, and can contribute to achieving growth targets.

268. How does easy monetary policy affect different sectors in Pakistan's economy?

A: Easy monetary policy has various impacts on different sectors. Consumer credit, especially for durables, and the housing sector receive a boost from lower interest rates. Speculative investments in property and stocks become lucrative, and there's a potential for increased portfolio investment. However, it's noted that some challenges and risks arise, such as potential destabilization of the balance of payments due to increased imports.

269. Why is Pakistan's savings rate considered low, and what factors contribute to it?

A: Pakistan's low savings rate (around 11% in 2011) is attributed to multiple factors, including financial repression, underdeveloped financial markets, cultural preferences for real assets like gold and jewelry, inflation, and uncertainty about the future. Foreign capital inflows, which were intended to fill the savings-investment gap, have also discouraged domestic savings.

270. How has financial sector reform impacted Pakistan's economy?

A: Financial sector reforms in Pakistan have included privatization of nationalized banks, expansion of supervisory jurisdiction of the State Bank of Pakistan (SBP), issuance of prudential regulations for banks, implementation of risk-weighted capital standards based on the Basel Accord, and granting autonomy to the SBP. These reforms aimed to improve the efficiency and effectiveness of the financial sector and enhance stability.

271. What is the CAMELS framework in Pakistan's financial sector?

A: The CAMELS framework is used in Pakistan's financial sector for assessing the performance of banks and non-bank financial institutions (NBFIs). It involves both off-site and on-site surveillance and evaluates institutions based on criteria related to Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

272. How did the State Bank of Pakistan support UBL and HBL during the financial crisis?

A: During the financial crisis, the State Bank of Pakistan provided equity support to United Bank Limited (UBL) and Habib Bank Limited (HBL) as part of a bailout package. UBL received equity support of Rs. 21 billion, and HBL received Rs. 9.7 billion to stabilize their financial positions.

273. What are the main factors contributing to inflation in Pakistan?

A: Inflation in Pakistan is influenced by several factors, including cost-push pressures, demand-pull dynamics, changes in money supply, and structural issues.

274. How did the monetary management strategies change in Pakistan during the 1990s?

A: Pakistan underwent significant monetary management reforms during the 1990s, such as introducing open market operations, auctioning Treasury Bills, and implementing a dual exchange rate system.

275. What role does the State Bank of Pakistan (SBP) play in the money market?

A: The SBP regulates and supervises the money market in Pakistan, including overseeing call money transactions, credit ceiling trading, and implementing monetary policies.

276. What were some of the reforms introduced to address issues in Pakistan's economy during the 1990s?

A: Several reforms were undertaken, including downsizing and restructuring of banks, establishment of the Corporate & Industrial Restructuring Corporation (CIRC), classification of non-performing loans (NPLs), introduction of incentive schemes for loan defaulters, and changes in monetary policy instruments.

277. How did Pakistan address issues related to monetary policy, savings, and inflation during the 1990s?

A: Pakistan implemented various measures such as changing cash reserve requirements, introducing open market operations, removing caps on lending rates, and implementing structural reforms to manage monetary policy, savings, and inflation.

278. What are some theories that explain inflation in Pakistan?

A: Inflation in Pakistan has been explained using theories like cost-push and demand-pull factors, as well as monetarist models emphasizing money supply, Phillips curve models linking unemployment and inflation, and structural models considering broader economic factors.

279. How did Pakistan manage its exchange rate and foreign exchange policies during the 1990s?

A: Pakistan maintained exchange rate flexibility while managing external competitiveness and inflation. The State Bank of Pakistan withdrew from forward foreign exchange cover operations and increased limits on commercial banks' foreign exchange holdings.

280. What were the goals of financial sector reforms in Pakistan during the 1990s?

A: The goals included strengthening prudential regulations, reducing concessional lending schemes, enhancing the legal environment for loan recovery, and improving the prudential regulations of securities and insurance markets.

281. How did the Pakistani government address trade and foreign exchange reforms in the 1990s?

A: The government aimed to liberalize the trade regime, reduce exemptions from customs tariffs, review customs valuation procedures, and enhance the export regime while maintaining exchange rate flexibility and external competitiveness.

282. What were the major segments of the money market in Pakistan during the 1990s?

A: The money market in Pakistan consisted of the call money market, credit ceiling trading, and short-term financing methods like repurchase agreements (repos). It involved activities such as interbank lending, ceiling utilization, and forward foreign exchange cover operations.

283. What is the relationship between price inflation and unemployment in the short to medium run?

A: There exists a trade-off between price inflation and unemployment, meaning an economy cannot simultaneously achieve lower inflation and unemployment rates.

284. According to the 'structural' approach to model inflation, what determines the long-run trend of rising prices?

A: The differential rates in productivity growth, wages, and elasticities of income and prices between the industrial and services sectors.

285. Why were the existing theories of inflation inadequate in explaining rising inflation in third-world countries?

A: Many underlying assumptions in these theories may not hold for these economies, especially due to the presence of structural rigidities and surplus labor in the agricultural sector.

286. How do macroeconomic policies contribute to inflation?

A: Macroeconomic policies such as growth of the money supply, lax fiscal policy, and exchange rate depreciation can contribute to inflation by increasing demand for goods and factors of production.

287. What role do fluctuations in agricultural output play in overall inflation?

A: Fluctuations in agricultural output are a significant determinant of overall inflation, especially due to the impact on food prices in the consumption basket.

288. How are adjustments in government-administered prices related to inflation?

A: Adjustments in government-administered prices can contribute to inflation, particularly when they reflect a lack of financial discipline and intensify demand pressure.

289. What is the impact of changes in international prices on domestic price levels?

A: Changes in international prices can impact domestic price levels, but in the case of Pakistan, these changes have generally not been closely related to changes in non-food price inflation.

290. How does the cyclical position of the economy affect inflation?

A: If growth exceeds the economy's potential, factors of production are utilized intensively, leading to pressure on wages and prices, potentially causing inflation.

291. What does the permanent income hypothesis suggest about the relationship between income growth and savings?

A: The savings rate is positively related to the growth in national income, as more surplus income leads to higher savings.

292. How does an increase in the real interest rate impact domestic savings?

A: An increase in the real interest rate tends to encourage domestic savings by providing an incentive for households and the corporate sector to save more.

293. What are the main factors that discourage savings in Pakistan's economy?

A: Several factors discourage savings in Pakistan's economy, including the availability of bank credits, inflation rate, foreign interest rates, capital outflows, and dependency ratio.

294. How does inflation impact household and corporate savings in Pakistan?

A: Inflation negatively impacts household and corporate savings in Pakistan because the anticipation of higher future inflation rates leads people to reduce present consumption, resulting in lower savings.

295. How does a higher foreign interest rate affect savings in Pakistan?

A: A higher foreign interest rate can encourage people to transfer their savings abroad, reducing household and corporate savings. It also affects public savings by increasing the burden of foreign debt servicing.

296. What is the role of export earnings in enhancing savings in Pakistan?

A: Export earnings contribute to higher savings in Pakistan by increasing domestic savings through increased GDP and relieving foreign exchange constraints. The export sector's profitability can lead to greater savings.

297. How do changes in the terms of trade impact savings in Pakistan?

A: Changes in the terms of trade can have conflicting effects on savings in Pakistan. Some argue that deteriorating terms of trade reduce export earnings and domestic savings, while others suggest that reduced spending on imports can lead to higher savings.

298. How do private capital outflows affect savings in Pakistan?

A: Private capital outflows from Pakistan have adverse effects on both private and public savings. They result from economic instability and political unrest, reducing available resources for domestic investment and government revenue.

299. What impact do workers' remittances have on household savings in Pakistan?

A: Workers' remittances have a positive impact on household savings in Pakistan, as a significant portion of remittances is saved or invested by the families of emigrants.

300. How does the dependency ratio influence household savings in developing countries like Pakistan?

A: The influence of the dependency ratio on household savings in developing countries is debated. Some studies suggest a negative relationship, where a higher dependency ratio leads to lower savings, while others find no significant impact.

301. How does foreign capital inflow relate to domestic savings in Pakistan?

A: The relationship between foreign capital inflow and domestic savings in Pakistan has been extensively studied. Initially, it was thought that foreign capital would complement domestic savings, but more recent hypotheses suggest a depressing effect on savings.

302. What factors influence corporate savings in Pakistan?

A: Factors influencing corporate savings in Pakistan include profitability, real wage rates, debt servicing, and overall economic conditions.

303. How have IMF and World Bank policies influenced Pakistan's economic development?

A: IMF and World Bank policies, especially through Structural Adjustment Programmes, have significantly influenced Pakistan's economic development by imposing conditions and guiding economic restructuring, often focusing on stabilization and liberalization measures.



THE END