

100% Success Insha-Allah
Guess Paper for 2020
Most Important Questions With solutions For B.com
Part 1

Economics
Paper Code BC-303

QUESTION NO. 1

Explain the Law of Diminishing Marginal Utility with the help of a schedule and diagram.

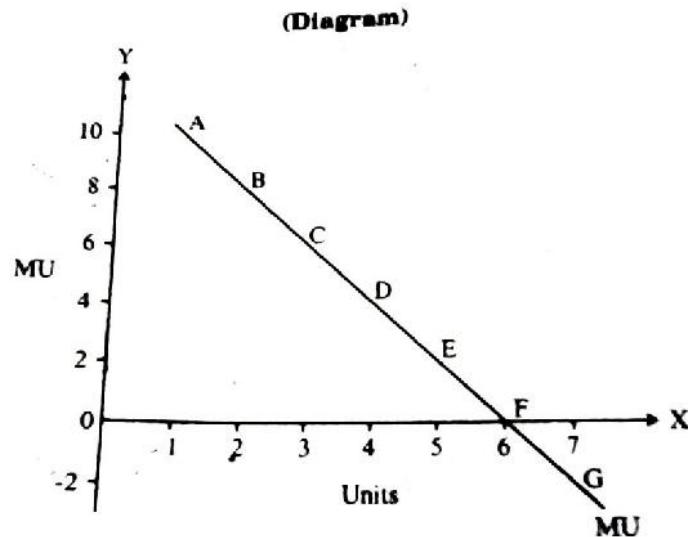
Answer:

Law of diminishing marginal Utility:

Law of Diminishing Marginal utility states "All other things being equal, the additional satisfaction derived from consuming additional units of a commodity tends to decrease with each successive unit consumed. Total Satisfaction continues to increase but at a decreasing pace."

For Example If a person feels thirsty and starts drinking glass of water, one after the other, The first glass of water gives him more satisfaction than the second and so on. This basic tendency in human behavior is called the law of diminishing marginal utility.

Units of Apple	Total Utility	Marginal Utility
1	10	10
2	18	8
3	24	6
4	28	4
5	30	2
6	30	0
7	28	-2



In the above table the first column indicates the units of apple, the second column shows the total utility and third shows marginal utility of units of apples. When the consumer uses units of apples one after the other, the utility goes on increasing upto 5th unit and stops increasing with 6th unit. So consumer does not get any satisfaction from the 6th unit. After the 6th unit total utility starts to fall.

The first unit of apple gives the consumer utility equal to 10 and second unit's utility is equal to 8 and so on. The marginal utility goes on decreasing, so the utility of 6th unit becomes equal to zero and the 7th unit's utility is negative. This tendency shows the law of diminishing marginal utility and proves that every increase of a thing gives less satisfaction.

Assumptions

The Law of Diminishing Marginal Utility Holds Good under Certain Circumstances

- **Reasonable Time:**
Commodity should be used at a stretch to prove the validity of the law.
- **Reasonable Unit:**
Size of Commodity Consumed should be reasonable; For Example Reasonable Unit for Milk is a Cup of Milk instead of A Spoon of Milk.
- **Taste / Fashion:**
Taste or Fashion should not change over the period of consumption of commodity.
- **Consumer's Income:**
Income of the consumer should remain constant over the period .

Exceptions:

- Money, Monetary Assets
- Hobbies and Rare and Antique Things
- Liquor and Music
- Things of Display

Importance:

- Basis of Law of Demand
- Basis of Consumption Expenditure
- The basis of Progressive Taxation

Question No.2

State and Explain the Law of Equi-marginal Utility with the help of a schedule and diagram.

Law of Equi-marginal Utility

“The tendency on the part of a consumer to equate the utility from all marginal uses.”

Explanation:

When the utility from all marginal uses is same the consumer will get the maximum satisfaction.

A prudent Consumer in order to get maximum satisfaction from his limited income compares not only the utility of a particular commodity and price but also the utility of other commodities.

If he finds that the particular expenditure on one use is yielding less utility than that of other , He will try to transfer a unit of expenditure from a commodity yielding less expenditure to a commodity yielding high marginal utility.

The consumer will reach his equilibrium when it is not possible to increase utility by transferring from less advantageous use to more advantageous use, This position of equilibrium is reached when the utility from all marginal uses is same.

Formula For Law of Equi-marginal Utility:

$$MU_A / P_A = MU_B / P_B = MU_C / P_C \text{-----} MU_Z / P_Z$$

Schedule:

A consumer has Rs.5, He Want to spend this money on two commodities. The MU

on both commodities are as under.

Units	MU (Tea)	MU (Cigarettes)
1	10	12
2	8	10
3	5	8
4	4	6
5	2	3
Total Utility	30	39

A consumer can spend money in three ways:

1. Rs.5 on Tea
2. Rs.5 on Cigarettes
3. Some on Tea and some on Cigarettes

Total Utility:

1. When a consumer spends Rs.5 on Tea, He gets a total utility of 30(10+8+5+4+2)

2. 1.When a consumer spends Rs.5 on Cigarettes, He gets a total utility of 39 (10+8+5+4+2)

3. When a consumer tries different combination

$$4T \quad 1 C = 10+8+6+4+2 = 40$$

$$3T \quad 2C = 10+8+6+12+10=46$$

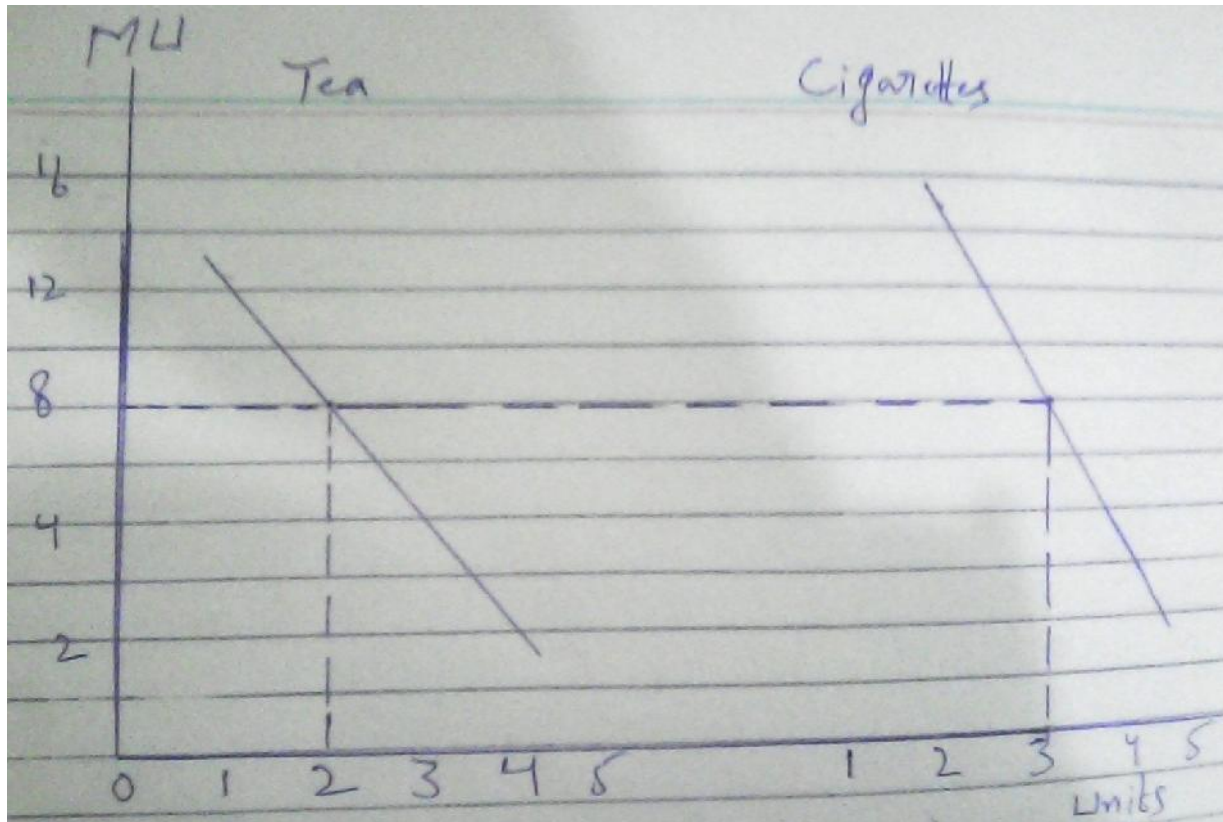
$$2T \quad 3C = 10+8+12+10+8 =48$$

$$1T \quad 4C = 10+12+10+8+6 =46$$

(T=Tea, C=Cigarettes)

Hence the Total utility in maximum at a point when consumer spends Rs.2 on T And Rs .3 on Cigarettes. Mu is also equated on this point , MU =8 (See in table above, 2 Units of T And 3 Units of cigarettes)

Diagram:



Limitations:

This law does not hold good in solving practical problems due to following limitations.

Unrealistic Assumptions:

This law is based on unrealistic assumption of constant utility of many addition of utilities, which does not conform to the practical world.

Careful Calculation:

It is very difficult to calculate utilities and equate them with the price of the product. Utility is a purely intangible attribute which is difficult to measure.

Taste or Fashion:

Mostly people make their purchases according to their taste and fashion , they do not bother to equalize utility of a good with its price.

Indivisibility:

Most goods are indivisible, So it is not possible to equate utility derived

from such good.

Question No.3

Define an Indifference Curve. State and Prove the main properties of Indifference curves with the help of diagrams.

Indifference Curve:

Indifference Theory Considers, What change in consumption of one good is required to compensate for a change in consumption of a second good, to leave the total utility unchanged.

Indifference curve shows consumer is indifferent and he gets equal satisfaction from each combination.

Assumptions:

- 1) Consumer is rational , so he will try to maximize the satisfaction
- 2) Consumer has choice of two goods, x and y.
- 3) Diminishing marginal rate of substitution between the goods
- 4) Goods are transitive, If consumer prefers Good A to Good B, and Good B to Good C, Then he Should Prefer Good A to Good C.

Schedule:

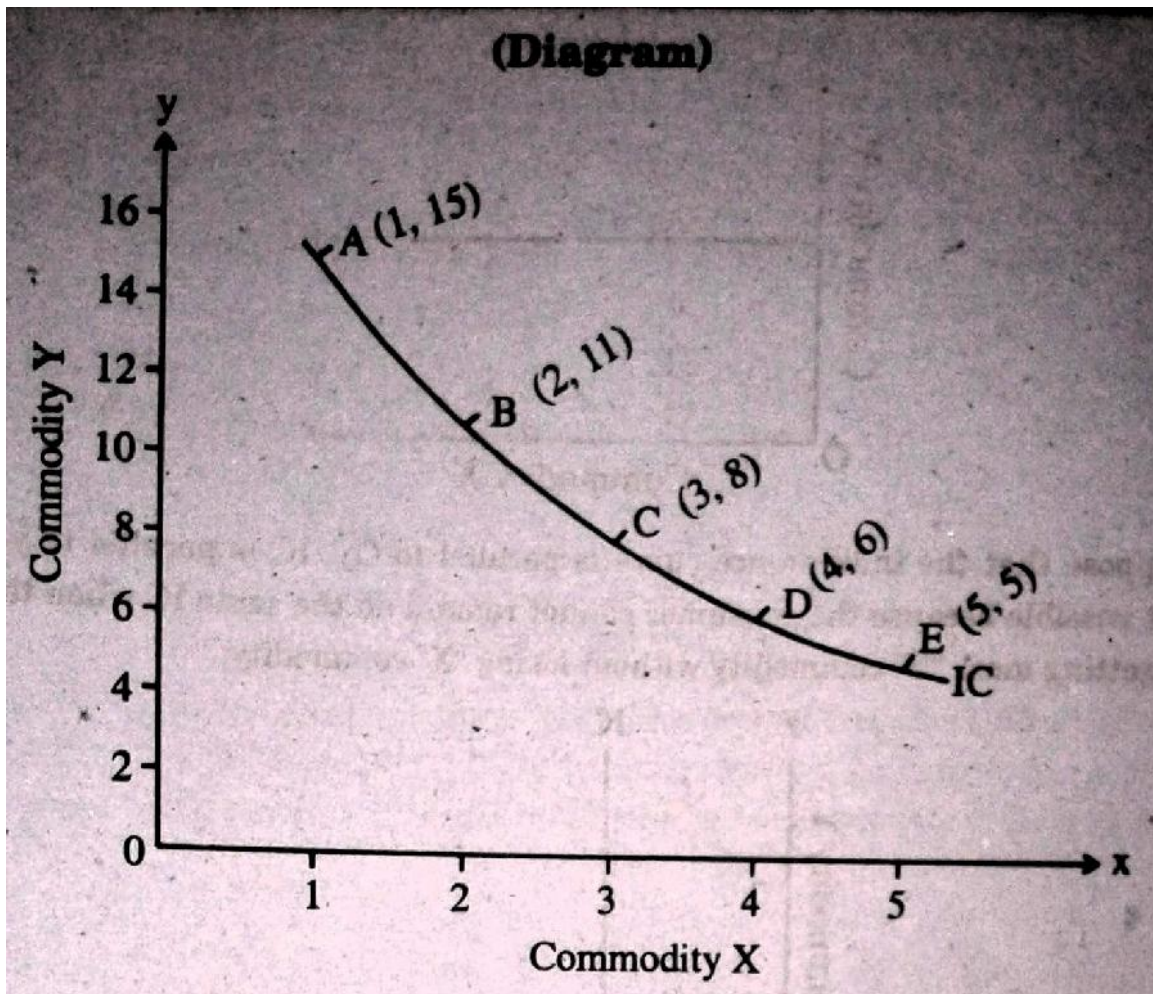
Combination	Commodity X	Commodity Y	MRS	Satisfaction
A	1	15	-	same
B	2	11	4:1	same
C	3	8	3:1	same
D	4	6	2:1	same
E	5	5	1:1	same

According to the above table when consumer has one unit of "X" commodity and 15 units of "Y" commodity, he is willing to forgo 4 units of "Y" to get one unit of "X"

Whereas new combination gives the same level of satisfaction to the consumer. In the last combination he is willing to forgo only one unit of Y to get one unit of "X"

Thus the marginal rate of substitution of Y for X goes on Diminishing, So that consumer indifferent about A to E Combination because the total satisfaction is the same in these combinations.

Diagram



In the above diagram x commodity X is shown along x-axis and commodity Y has been measured along y-axis. IC curve has been constructed with the help of two commodities "X" and "Y".

Consumer purchases one unit of "X" and 15 units of "Y" to get maximum satisfaction by the interesection of first combination of X and Y commodities, we

get point A. In order to

by the intersection of first combination of X and Y commodities, we get point A. In order to get one more unit of X, the consumer has to forgo 4 unit of Y and we get point B. Similarly we get points CDE. By joining these points (ABCDE) we get a curve, which is called indifference

get points CDE. By joining these points (ABCDE) we get a curve, which is called indifference curve and each joint on it showing equal satisfaction.

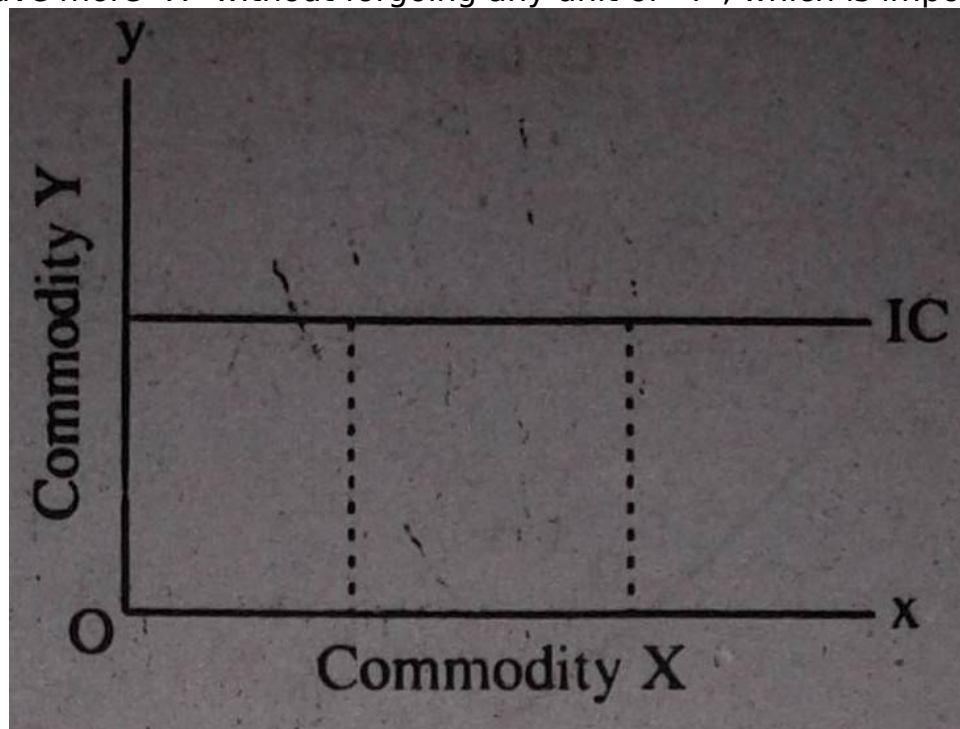
Characteristics/ Properties of Indifference Curves:

A consumer may have a large number of indifference curves representing his scale of preference but there are some characteristics of indifference curves, which have been explained below.

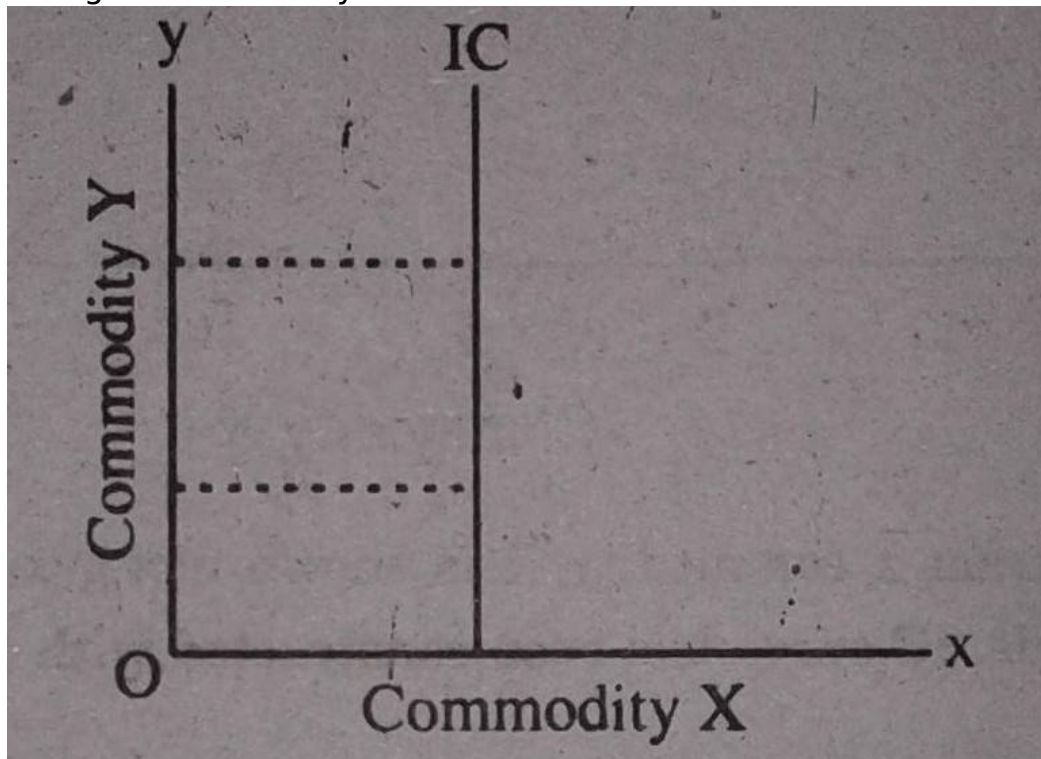
1) Indifference Curves are Negatively Sloped:

IC falls downwards from left to right. That is why they are negatively sloped. This is because in order to get more of one thing the consumer has to accept less of the other thing. This property of IC can be proved in following ways:

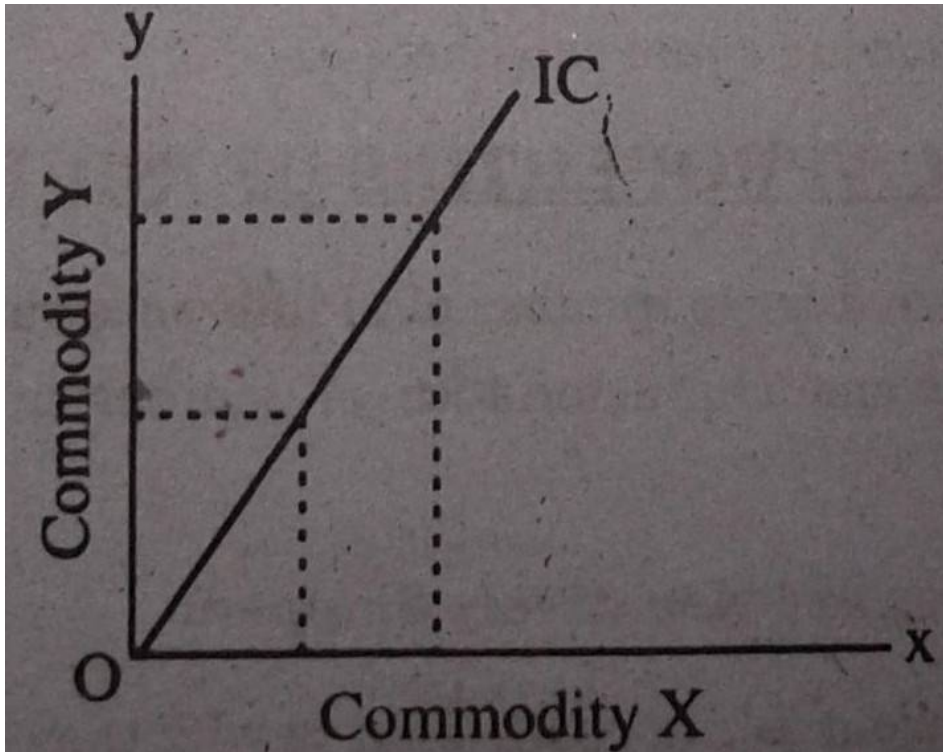
- i) Suppose the IC is parallel to the OX, which means that a consumer could have more "X" without forgoing any unit of "Y", which is impossible.



- ii) Suppose that the indifference curve is parallel to Oy. IC is parallel to Y axis is also not possible because, the consumer cannot remain on the same IC when the consumer is getting more "Y" commodity without losing "X" commodity.



- iii) Suppose IC is positively sloped and it is raising upward from left to right. It means the consumer is getting more "Y" commodity along with the increase in "X" Commodity, which is against the basic properties of indifference curves, Thus it is proved that IC is always negatively sloped.

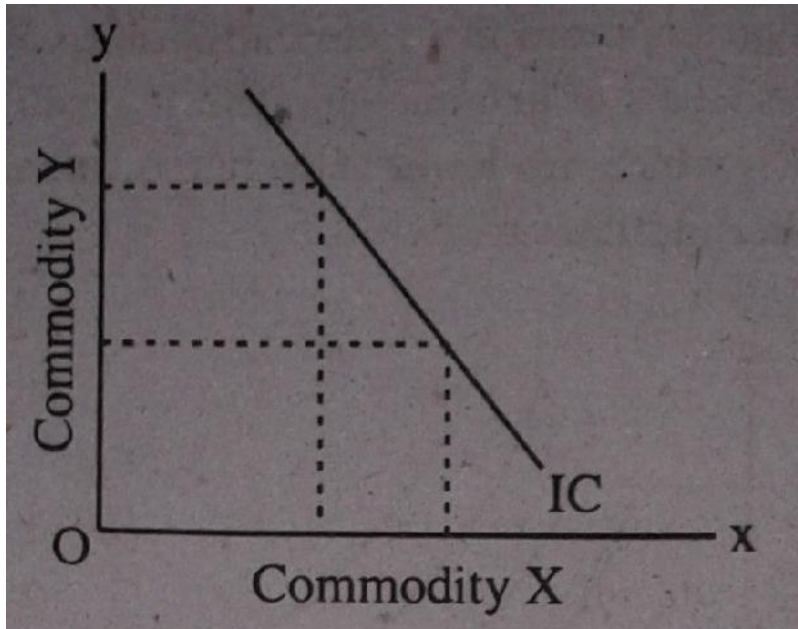


iv)

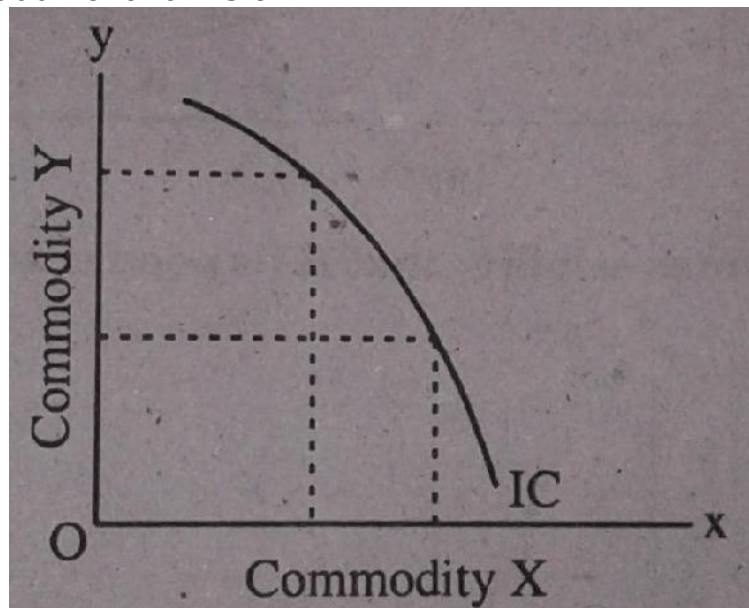
2) IC are convex to the Origin:

The second property of the IC is that it is convex to the origin, because a consumer goes on substituting one commodity for another and the MRS goes on diminishing. This property of IC can be Proved in following Ways.

- i) Suppose the IC is a straight left to right downward line, which shows proportionate decrease in commodity "X" with the increase in commodity "Y" and this would Unlikely to happen.



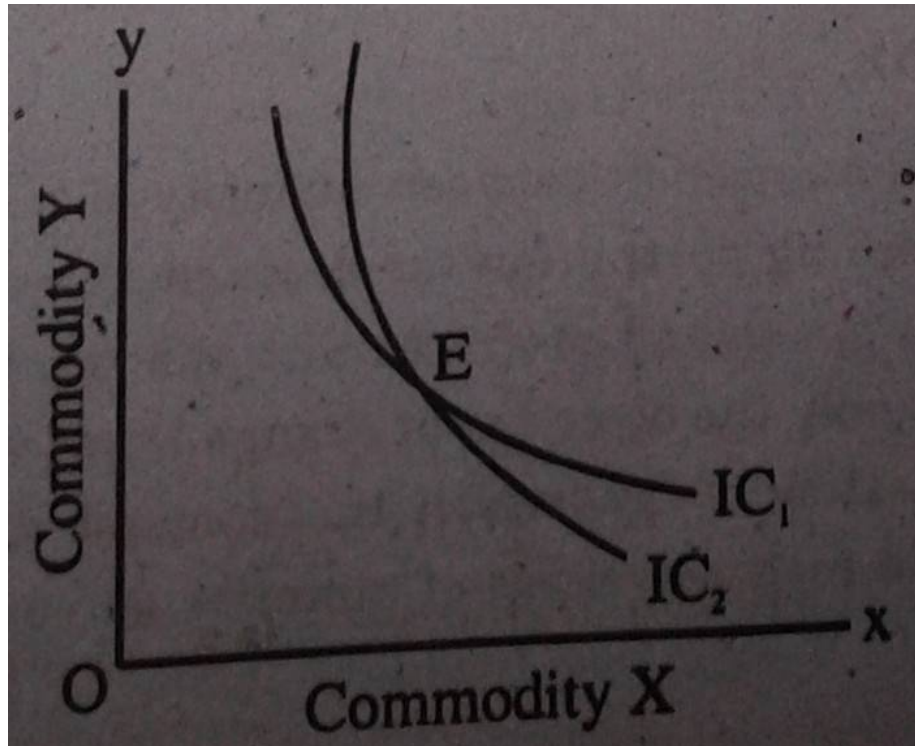
- ii) Suppose the IC is concave to the origin which means that the MRS of "X" Commodity in the term of "Y" instead of falling is rising. So it is impossible for a consumer to forgo more and more of "Y" commodity in order to get additional units of X.



(3) IC never intersects Each other:

The third property of IC is that they never cut across each other.

This situation shows that the consumer is getting equal satisfaction at point where IC1 intersect IC2 Which is an unacceptable position. The level of satisfaction on a higher IC can never be the same as on a lower IC. Thus it proved indifference curves never intersect each other.



Question No. 4

Briefly Explain the Price Elasticity of Demand, How It is Measured.

- Price Elasticity of Demand
 - The responsiveness of demand to changes in price
 - Where % change in demand is greater than % change in price - elastic
 - Where % change in demand is less than % change in price - inelastic

DEFINITIONS:

- (i) According to Lipsy: "Elasticity of demand may be defined as the ratio percentage change in demand to the percentage change in price."
- (ii) According to Mrs. Robinson: "The elasticity of demand at any price is the proportional change of amount purchased in response to a small change in price divided by proportional change in price."

MEASUREMENT OF ELASTICITY OF DEMAND

The following three methods may be used for measuring of elasticity of demand:

- (1) Expenditure method
- (2) Proportional method
- (3) Geographic method

Note:

According to Marshall: "The elasticity of demand is measured by unity method."

In this method elasticity of demand is equal to one or greater than one or less than one.

(1) Total Expenditure Method:

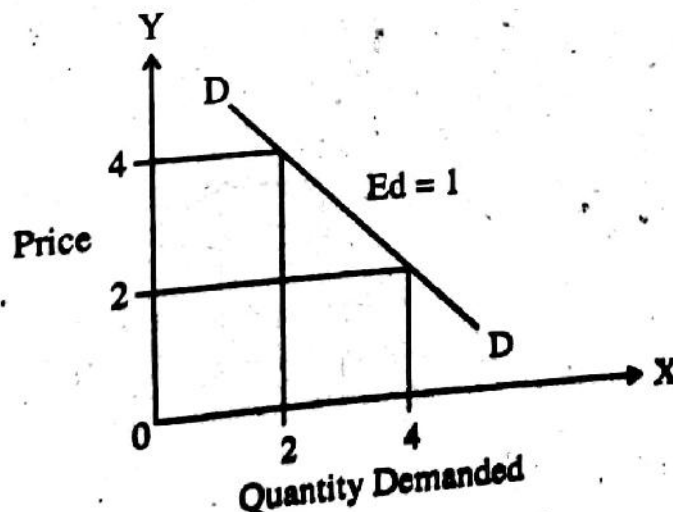
- (i) If the change in demand is equal to the proportional change in price is called elasticity of demand equal to one. In this case total expenditure remains constant, at high and low price.

(Schedule)

Price	Qd	Total Expenditure
2 Rs.	4 Units	8 Rs.
4 Rs.	2 Units	8 Rs.

In this above table the expenditure remains the same as price rises so elasticity of a demand is equal to one. The following diagram can explain this.

(Diagram)



In the above diagram price is measured on Y-axis and qd is measured on x-axis. When price increases from Rs. 2 to Rs. 4. Demand decreases from 4 to 2 unit and total expenditures remain constant. In this situation Ed is equal to one. Ed can also be measured by the following formula.

$$\begin{aligned} Ed &= \frac{q_2 - q_1}{q_2 + q_1} \times \frac{p_2 + p_1}{p_2 - p_1} \\ &= \frac{2 - 4}{2 + 4} \times \frac{4 + 2}{4 - 2} \\ &= \frac{-2}{6} \times \frac{6}{2} \\ &= -1 \end{aligned}$$

As (-) sign is ignored

$$Ed = 1$$

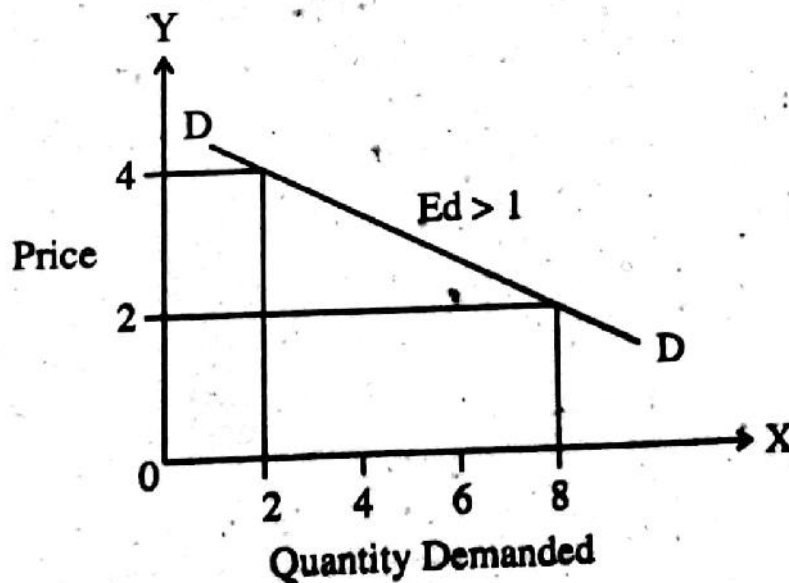
- (ii) If the change in demand is more than the proportionate change in price the elasticity of demand is greater than one. In this case total expenditure decreases on an increase in price and vice versa.

(Schedule)

Price	qd	Total Expenditure
2 Rs.	8 Units	16 Rs.
4 Rs.	2 Units	8 Rs.

From the above table we can see that as there is increase in price total expenditure decreases as increase in price so $Ed > 1$. We can represent this by the following diagram.

(Diagram)



In the above diagram when price decreases from Rs. 4 to Rs. 2 demand increases from 2 to 8 unit, it shows that $Ed > 1$.

It can be explained with the help of following formula.

$$\begin{aligned} Ed &= \frac{q_2 - q_1}{q_2 + q_1} \times \frac{p_2 + p_1}{p_2 - p_1} \\ &= \frac{2 - 8}{2 + 8} \times \frac{4 + 2}{4 - 2} \\ &= \frac{-6}{10} \times \frac{6}{2} \\ &= \frac{-18}{10} \\ &= \frac{-9}{5} \end{aligned}$$

$$Ed = -1.8$$

Ignoring (-) sign $Ed > 1$

- (iii) If the change in demand is less than the proportionate change in price and total expenditure increase as the price increases. The elasticity of demand is called less than one, which can be explained by the following table.

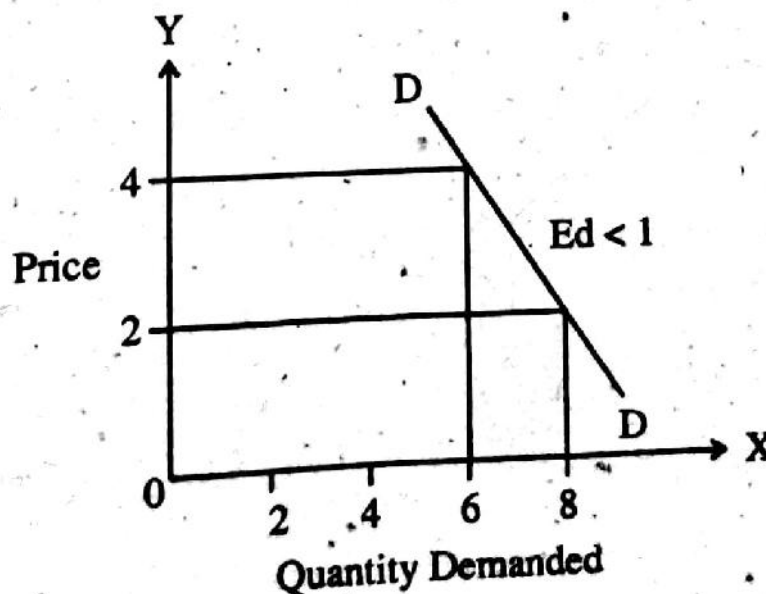
(Schedule)

Price	Qd	Total Expenditure
2 Rs.	8 Units	16 Rs.
4 Rs.	6 Units	24 Rs.

From the above table it is explained that expenditure is increased as increase in price when price increases from Rs. 2 to Rs. 4 the demand decreases from 8 to 6 units. Change in demand is less than change in price so $Ed < 1$.

It can be explained with the help of the following diagram:

(Diagram)



On x-axis demand and on y-axis price is shown. When price increases from Rs. 2 to Rs. 1 the qd decreases from 8 to 6 units it shows that $E_d < 1$. This can be explained with the help of following formula.

$$\begin{aligned}
 E_d &= \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1} \\
 &= \frac{6 - 8}{6 + 8} \times \frac{4 + 2}{4 - 2} \\
 &= \frac{-2}{14} \times \frac{6}{2} \\
 &= \frac{-6}{14} \\
 &= \frac{-3}{7}
 \end{aligned}$$

$$E_d = -0.43$$

Ignoring (-) sign, $E_d < 1$

(2) Percentages or Proportional Method:

According to this method measurement of elasticity of demand as a ratio of the percentage change in the quantity demanded to the percentage change in the price of the commodity.

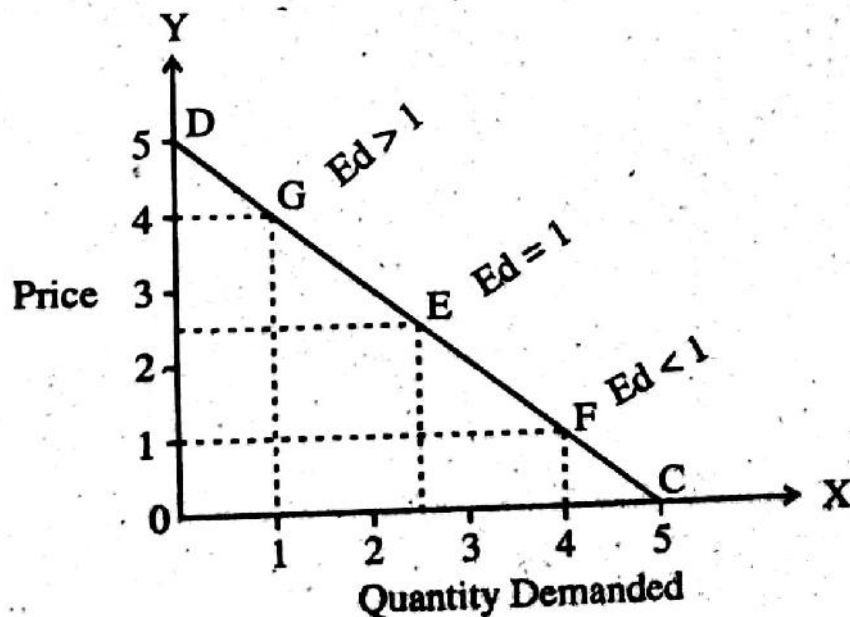
$$E = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

$$E_d = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

(3) Geometric Method:

According to this method we measure elasticity on a demand curve. It is very easy to point out elasticity at any point along a demand curve. Suppose that the demand curve D state line. Further suppose EFG are the three points on demand curve to see the elasticity of demand.

(Diagram)



$$(1) \quad E = \frac{CE}{ED} = \frac{2.5}{2.5} = \text{Equal to one}$$

$$(2) \quad G = \frac{CG}{GD} = 4 = \text{Greater than one}$$

$$(3) \quad F = \frac{CF}{FD} = \frac{1}{4} = \text{Less than one}$$

At the mid point of the above demand curve the elasticity of demand is equal to one upward from mid point, elasticity becomes greater than one. Below the mid point ED less than one.

Question No. 5: State and explain the law of variable proportions with the help of a schedule and Diagram.

LAW OF VARIABLE PROPORTION

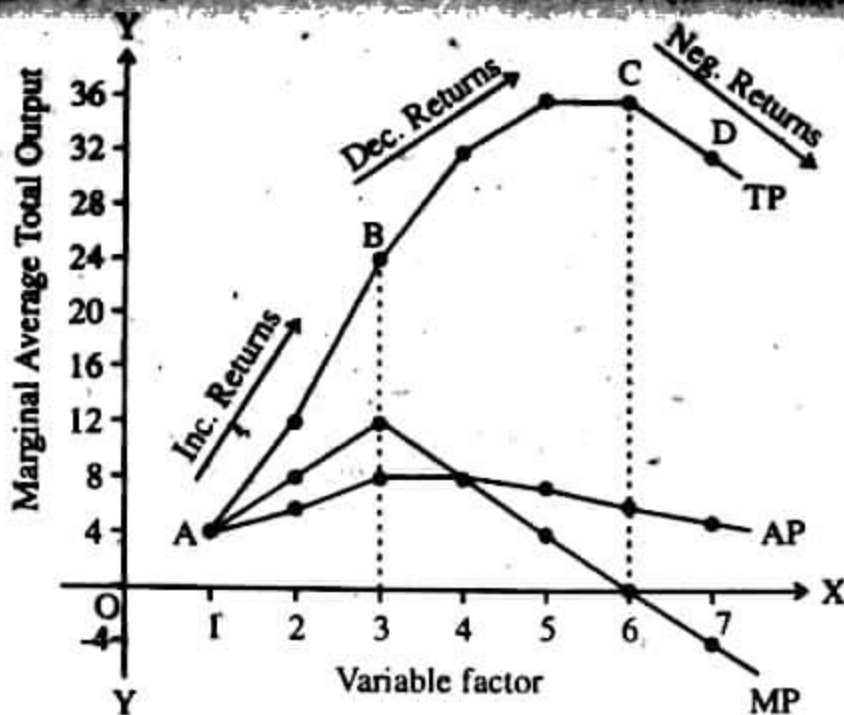
According to J.L. Ryon: "This law varieties the trend that when, according to any given art of production, more units of a variable factors are applied to the fixed factor, than up to a particular point, the increase in production is more than the ratio of the variable factor, but later on it becomes less. "

According to Due and Clover: On the basis of common assumptions, economics analysis and observatory knowledge show that when one or more than one units of variable factors are applied to fixed factor, output increases at all increasing ratio more than increase in variable factor. Anyhow the increase ratio of output diminishes as compared to an increase in the variable factor. This tendency in production is known as a variable proportions

(Schedule)

F. Factors	V. Factors	Total output	Average Output	Marginal output
5 Acres	1	4	4	4
5 Acres	2	12	6	8
5 Acres	3	24	8	12
5 Acres	4	32	8	8
5 Acres	5	36	7.2	4
5 Acres	6	36	6	0
5 Acres	7	32	4.5	-4

In the above table first column represents fixed factor. Second variable factor and third column shows total output. The average and marginal output columns are derived from the total output column. With zero workers output is naturally zero as the most of the variable factor increases output rises. One worker is applied to 5 acres of land will produce four units of output, 2 workers will produce 8 units, 3 workers will produce 12 units and so on. There is, however, a limit to the quantity of output that at the firm can produce on 5 acres by increasing variable factor. In our example. The limit is reached when 5 workers produce, 36 units. A sixth unit of variable factors adds nothing output and using seventh workers actually causes output to decline.



In the above diagram the total output curve shows how the total output of wheat varies with the quantity of labour employed. Just as indicated in the table, total output increases as more labour is used, and reaches a maximum at 36 units, when 6th workers are employed beyond 6th workers output declines.

AP shows average product and MP marginal product curve for variable factor. These curves measure the output per unit of input. As employment of labour increases, the marginal product of the labour increases first and reaches the maximum at 3 workers and then declines. The average product of labour also increases at low level of employment, reaches a maximum at 4 workers and then declines.

THREE STAGES OF PRODUCTION

When marginal product first rises and then falls the product curves as the general shapes in the diagram. Economists, have found it useful to partition the product curve into 3 stages.

(1) Stage I:

Total product increases, first at an increasing rate and then at decreasing rate, marginal product increases reach a maximum 3 workers, and then falls as diminishing returns, but still remains positive and average production rises and reaches a maximum 4 workers.

(2) Stage II:

From 4 to 6 workers. In this stage, average product falls, but total product still rises until the marginal product reaches zero at 6 workers. Thus additional unit of the variable input continuous to increase total product in stage II, but not as rapidly as in stage I.

(3) Stage III:

In the third stage the average product decreases still further. Total output actually falls as more labour is used, Marginal product is negative and average product continues to decline.

QUESTION NO. 6

Explain the different methods of measurement of National Income. Point out the difficulties in its correct measurement.

Measuring national income

To measure how much output, spending and income has been generated we use national income accounts. These accounts measure the:

1. Total value of the output of goods and services produced in the Pakistan
2. Total amount of expenditure taking place in the economy
3. Total amount of income generated through production of goods and services

National Income is a term used to measure the monetary value of the flow of output of goods and services produced within the economy over a period of time. Measuring the level and rate of growth of national income (Y) is important to economists when they are considering:

- The rate of economic growth and where the economy is in the business cycle
- Changes to overall living standards of the population
- Looking at the distribution of national income (i.e. measuring income and wealth inequalities)

Gross Domestic Product (GDP)

GDP measures the value of output produced within the domestic boundaries of the PAKISTAN.

It includes the output of the many foreign owned firms that are located in the PAKISTAN

There are three ways of calculating GDP - all of which should sum to the same amount since by identity:

National Output = National Expenditure (Aggregate Demand) = National Income

Under the new definitions introduced in 1998, GDP is now known as Gross Valued Added.

i) The Expenditure Method (Aggregate Demand)

This is the sum of the final expenditure on PAKISTAN produced goods and services measured at current market prices. The full equation for GDP using this approach is

$$\text{GDP} = C + I + G + (X - M)$$

C: Household spending (consumption)

I: Capital Investment spending

G: General Government spending

X: Exports of Goods and Services

M: Imports of Goods and Services

ii) The Income Method (Sum of Factor Incomes)

Here GDP is the sum of the final incomes earned through the production of goods and services.

Main Factor Incomes

Income from employment and self-employment

Added to Profits of companies

Added to Rent income

= Gross Domestic product (by factor income)

Only factor incomes generated through the production of output are included in the calculation of GDP by the income approach. Therefore, we exclude from the accounts the following items:

Transfer payments (e.g. the state pension, income support and the Jobseekers' Allowance)

Private Transfers of money from one individual to another

Income that is not registered with the Inland Revenue (note here the effects of the Black or shadow economy where goods and services are exchanged but the value of these transactions is hidden from the authorities and therefore does not show up in the official statistics!)

iii) The Output Method

This measures the value of output produced by each of the productive sectors in the economy using the concept of value added. Value added is the increase in the value of a product at each successive stage of the production process. We use this approach to avoid the problems of double-counting the value of intermediate inputs. The main sectors of the economy are the service industries, manufacturing and construction, and extractive industries such as mining, oil together with agriculture

Difficulties in Measurement of National Income

There are many difficulties in measuring national income of a country accurately. The difficulties involved in national income accounting are both conceptual and statistical in nature. Some of these difficulties involved in the measurement of national income are discussed below:

Non Monetary Transactions

The first problem in National Income accounting relates to the treatment of non-monetary transactions such as the services of housewives to the members of the families. For example, if a man employs a maid servant for household work, payment to her will appear as a positive item in the national income. But, if the man were to marry the maid servant, she would be performing the same job as before but without any extra payments. In this case, the national income will decrease as her services performed remain the same as before.

Problem of Double Counting

Only final goods and services should be included in the national income accounting. But, it is very difficult to distinguish between final goods and intermediate goods and services. An intermediate good and service used for final consumption. The difference between final goods and services and intermediate goods and services depends on the use of those goods and services so there are possibilities of double counting.

The Underground Economy

The underground economy consists of illegal and uncleared transactions where the goods and services are themselves illegal such as drugs, gambling, smuggling, and prostitution. Since, these incomes are not included in the national income, the national income seems to be less than the actual amount as they are not included in the accounting.

Petty Production

There are large numbers of petty producers and it is difficult to include their production in national income because they do not maintain any account.

Public Services

Another problem is whether the public services like general administration, police, army services, should be included in national income or not. It is very difficult to evaluate such services.

Transfer Payments

Individual get pension, unemployment allowance and interest on public loans, but these payments creates difficulty in the measurement of national income. These earnings are a part of individual income and they are also a part of government expenditures.

Capital Gains or Loss

When the market prices of capital assets change the owners make capital gains or loss such gains or losses are not included in national income.

Price Changes

National income is the money value of goods and services. Money value depends on market price, which often changes. The problem of changing prices is one of the major problems of national income accounting. Due to price rises the value of national income for particular year appends to increase even when the production is decreasing.

Wages and Salaries paid in Kind

Additional payments made in kind may not be included in national income. But, the facilities given in kind are calculated as the supplements of wages and salaries on the income side.

Illiteracy and Ignorance

The main problem is whether to include the income generated within the country or even generated abroad in national income and which method should be used in the measurement of national income.

Besides these, the following points are also represents the difficulties in national income accounting:

- Second hand transactions;
- Environment damages;
- Calculation of depreciation;
- Inadequate and unreliable statistics; etc.

Question No.7:

Explain the various cannons or principles of Taxation Followed By Modern Governments.

CANNON OF TAXATION

Adam smith's canon of taxation:

Adam smith, the father of modern political economy, has laid down four principles of taxation in his famous book "wealth of nations". These principles are:

Canon of equality of ability:

according to Adam smith "the subjects of every state ought to contribute towards the support of the government as really as possible, in proportion to their respective abilities, i.e. in proportion to the revenue which they respectively enjoy under the protection of the state".

Canon of certainty:

according to Adam smith "the tax which each individual has to pay ought to be certain and not arbitrary. The time of payment, the amount to be paid, ought to be clear and plain to the contributor and to every other person". The individual should know exactly, what, when a how he is to pay the tax, otherwise, it causes unnecessary suffering. Similarly, the state should also know how much it would receive from tax.

Canon of convenience:

Adam Smith wrote "every tax ought to be levied at the time or in the manner in which it is most convenient to pay". In this canon, the two elements, time and manner of payment, must be convenient for the tax payers so that he is able to pay his taxes in de time.

Canon of economy:

Adam Smith said "every tax ought to be so contrived as both, to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state". This canon implies that the expenses of collection of taxes should not be excessive. They should be kept as little as possible, consistent with the administrative efficiency.

OTHER CANON OF TAXATION**Canon of productivity:**

according to this canon, the taxes should bring an ample amount of money to the state. After all, the main objective of the taxing authority is to secure funds. Therefore, a tax, which does not yield a fair income, is useless. It is much better to have few taxes that yield good revenue instead of many taxes yielding a little.

Canon of elasticity:

it states the tax system should be fairly elastic. If govt. requires more funds, it can increase its revenue from the same taxes without incurring any additional costs of collection and reducing the incentive to production. Income tax is a very good example of an elastic tax.

Canon of simplicity:

the canon of simplicity refers to tax system, which should be fair, simple and logical to the taxpayer. If it is difficult and complicated to understand, then it will lead to oppression and corruption.

Canon of diversity:

this canon says that taxation should be broad based. It must cover all the citizens who can afford to contribute to the government revenue. For this purpose, a variety of taxes are, sometimes,

introduced. But it implies that taxes should be spread over trade, industry, agriculture, transport, profession etc.

Canon of flexibility:

flexibility in taxes is different from elasticity, discussed earlier. A flexible tax quickly adjusts to the new conditions. Presence of flexibility is a pre condition for elasticity. Lack of flexibility in a tax can cause financial trouble to the state.

Canon of development:

taxation intends to bring socioeconomic development in the country as a whole. It should reduce the economic inequalities. It must not slow down the rate of investment in the country. The tax revenue should be utilized to the maximum for promotion the welfare of the people.

QUESTION NO. 8

Define direct and indirect taxes. Give examples and examine their comparative advantages and disadvantages.

1. Direct Tax
2. Indirect Tax

1. Direct Tax

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property. Examples of direct taxes are:

- * Income Tax
- * Vehicle Tax
- * Expenditure Tax
- * Property Tax
- * Interest Tax

- * Gift Tax etc.

Advantages Of Direct Tax

- * Direct tax is equitable as it is imposed on person as per the property or income.
- * Time, procedure and amount of tax paid to be paid is known with certainty.
- * Direct tax is elastic. The government can change tax rate with the change in the level of property or income.
- * Direct tax enhances the consciousness of the citizens. Taxpayers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

Disadvantages Of Direct Tax

- * Direct tax gives mental pinch to the taxpayers as they have to curtail their income to pay to the government.
- * Taxpayers feel inconvenience as the government imposes tax progressively.
- * Tendency to evade tax may increase to avoid tax burden.
- * It is expensive for the government to collect tax individually.

2. Indirect Tax

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are:

- * VAT
- * Entertainment Tax
- * Excise Duty
- * Sales Tax
- * Hotel Tax
- * Import and Export Duty etc.

Advantages Of Indirect Tax

- * Indirect tax is convenient as the taxpayer does not have to pay a lump sum amount for tax.
- * There is mass participation. Each and every person getting goods or services has to pay tax.
- * There is a less chance of tax evasion as the taxpayers pay the tax collected from consumers.
- * The government can check on the consumption of harmful goods by imposing higher taxes.

Disadvantages Of Indirect Tax

- * Indirect tax is uncertain. As demand fluctuates, tax will also fluctuate.
- * It is regretful as the tax burden to the rich and poor is same.
- * Indirect tax has bad effect on consumption, production and employment. Higher taxes will reduce all of them.
- * Most of the taxes are included in the price of goods or services. As result, taxpayers do not know how much tax they are paying to the government.