

SECTION A [20 MARKS]
ANSWER ALL QUESTIONS

Question 1

[20]

For each question, there are FOUR responses: A, B, C and D. Choose the corresponding letter of your response and CIRCLE it neatly. NO score will be awarded if you circle more than ONE letter. If you change your answer, cross out the previous response clearly and circle your new answer.

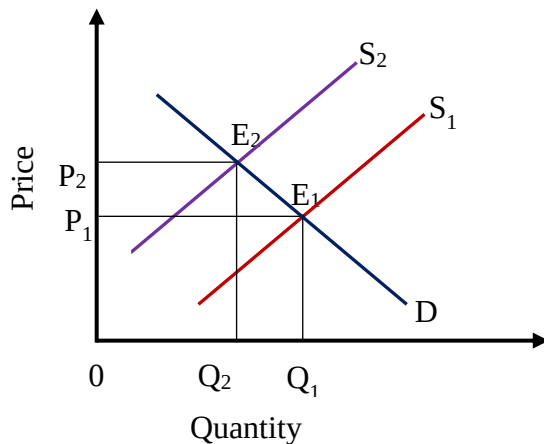
1. Why is Economics described as a social science?
 - A It ignores real-world decision making.
 - B It focuses on mathematical models of markets.
 - C It studies human behaviour under conditions of scarcity.
 - D It deals with government policies and national strategies.
2. A product has a price elasticity of demand of -0.2. What does it mean?
 - A The demand is relatively elastic.
 - B The demand is perfectly elastic.
 - C The demand is relatively inelastic.
 - D The demand is perfectly inelastic.
3. A country produces two goods, capital goods and consumer goods, as shown in the table below.

combinations	capital goods	consumer goods
W	0	20
X	4	18
Y	8	12
Z	12	4

What is the opportunity cost of producing 1 additional unit of capital goods between combinations Y and Z?

- A 0.5 consumer good
- B 1.0 consumer good
- C 1.5 consumer goods
- D 2.0 consumer goods

4. The market for a good is shown below. The supply curve shifts from S_1 to S_2 , while demand remains unchanged.



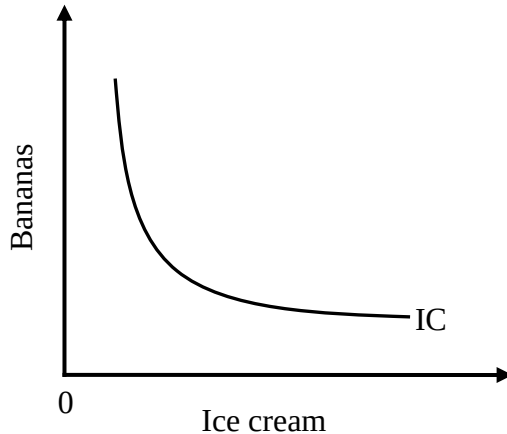
Which factor is responsible for this shift?

- A fall in price of raw materials
B fall in wages of workers in the industry
C increase in government subsidy per unit
D expectations of higher future prices by producers
5. A factory produces chemicals and releases untreated waste into a river which is used as a drinking water by the local residents. The firm does not pay for the pollution caused. Which statement below explains the situation as an example of market failure?
- A Demand for the product is too low to cover costs.
B External costs are ignored in production decisions.
C Private costs are equal to social costs of production.
D Resources are allocated efficiently through the price mechanism.
6. The price of a good falls in a market leading to an increase in the quantity demanded. Which effect best explains this change?
- A price effect
B income effect
C demand effect
D substitution effect
7. Which relationship defines a production function?
- A the relationship between cost and output
B the relationship between output and profit
C the relationship between inputs and output
D the relationship between fixed and variable inputs

8. A business person uses its factory to produce chairs instead of renting it out. What is the opportunity cost of using the factory to produce chairs?

A marginal cost of production
B explicit cost of raw materials
C implicit cost of forgone income
D total variable cost of producing chairs

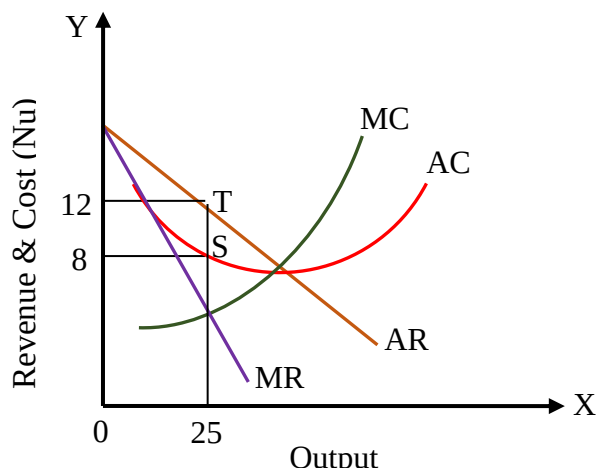
9. The diagram shows an indifference curve for ice cream and bananas.



A consumer is required to give up some bananas to consume additional units of ice cream. What does this show?

- A Consumer income has increased.
B A trade-off between the two goods.
C The two goods are perfect substitutes.
D The market prices of the two goods are fixed.
10. As consumer's total utility increases, it is noticed that the rate of increase falls. What can be concluded about marginal utility?
- A Marginal utility is zero.
B Marginal utility is constant.
C Marginal utility is increasing.
D Marginal utility is diminishing.
11. What is likely to cause an outward shift of a country's production possibility curve?
- A a natural disaster
B improved technology
C inefficient use of resources
D an increase in unemployment

12. The diagram shows the cost and revenue curves of a firm, which earns supernormal profit.



What is the amount of supernormal profit?

- A 50
 - B 55
 - C 60
 - D 70
13. What is meant by “marginal revenue”?
- A total revenue divided by total quantity sold
 - B total revenue from selling all units of output
 - C cost incurred from producing one extra unit of output
 - D additional revenue from selling one extra unit of output
14. A manufacturing business incurs the following costs in its production process. Which is the fixed cost?
- A electricity
 - B factory rent
 - C raw materials
 - D production worker wages
15. In a perfectly competitive market, a firm faces a horizontal demand curve. Given this condition, which statement describes the firm’s revenue relationships?
- A Average revenue falls while marginal revenue rises as output increases.
 - B Average revenue equals marginal revenue and both are equal to market price.
 - C Marginal revenue is always greater than average revenue due to rising output.
 - D Average revenue is greater than marginal revenue because price falls with output increase.

16. A firm may pursue different objectives depending on its goals and the market situation. Which objectives are commonly associated with firms?
- A profit maximisation, sales maximisation, and growth
 - B profit maximisation, cost minimisation, and affordable prices
 - C sales maximisation, marginal cost pricing, and allocative efficiency
 - D revenue maximisation, productive efficiency, and affordable prices
17. A firm increases inputs from 100 units to 150 units. Output rises from 200 units to 280 units. Which statement best describes the firm's production conditions?
- A diseconomies of scale
 - B constant returns to scale
 - C increasing returns to scale
 - D decreasing returns to scale
18. A student must choose between taking a job that pays Nu. 25,000 per month or enrolling in a one-year course that costs Nu. 60,000 and provides no income. What is the total opportunity cost of choosing the course for **one year**?
- A Nu. 60,000
 - B Nu. 85,000
 - C Nu. 300,000
 - D Nu. 360,000
19. What is the necessary condition required for a firm to maximise profit?
- A $MR > MC$
 - B $MR < AC$
 - C $MR = MC$
 - D $MR = AC$
20. A firm experiences increasing returns to scale when all inputs are increased in the long run. What causes these increasing returns to scale?
- A more efficient use of machinery
 - B higher transport costs due to larger output
 - C decreased worker productivity due to fatigue
 - D increased coordination problems in management

SECTION B (30 MARKS)

Answer all the questions

Question II

Read the following text related to Potato Farmers in a Bhutanese Local Market and answer all parts of the question.

[15]

In Bhutan agricultural producers, such as potato farmers, respond differently to an increase in market price due to differences in the price elasticity of supply for potatoes. In some seasons, farmers are able to increase supply quickly by using stored stocks. However, in other periods, supply remains almost unchanged due to several factors such as, limited land.

The supply schedule below shows the relationship between the price of potatoes and the quantity supplied in a local market.

Supply Schedule for Potatoes

Price (Nu. per kg)	Quantity supplied (kg)
10	100
12	120
14	140
16	152

1. Define price elasticity of supply.

[2]

2. Calculate the price elasticity of supply when the price rises from Nu. 10 to Nu. 12.

[2]

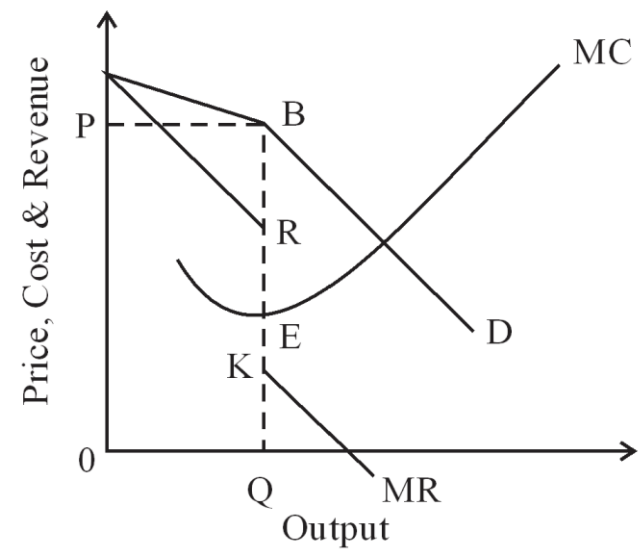
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3. Explain how the time period influences price elasticity of supply for agricultural products, such as potatoes. [3]

4. Evaluate the factors that influence the price elasticity of supply of potatoes in Bhutan. [8]

Question III

The diagram below shows the market equilibrium for an oligopoly. Study the diagram and answer all parts of the question.



1. State TWO features of an oligopoly market structure. [2]

2. Describe how rival firms in an oligopolistic market are likely to react when one firm lowers its price below the market equilibrium level. [2]

3. Explain why a firm in an oligopolistic market is likely to avoid increasing the price of its product. **[3]**

4. Evaluate the extent to which the diagram above shows the behaviour of firms in an oligopolistic market. **[8]**

SECTION C [20 MARKS]

Answer all parts of the question.

Question IV

Read the following text related to Production Costs and Externalities in a Bhutanese Firm and answer all parts of the question.

[20]

A manufacturing firm in Bhutan produces packaged food. The business has expanded production to meet increasing demand, which has resulted in additional costs. As output increased, the firm initially experienced lower average costs. However, beyond a certain level of production, congestion in the factory and coordination problems resulted in increased costs.

At the same time, nearby residents report air pollution caused by the factory's smoke emissions. The government is considering introducing stricter environmental regulations.

1. Analyse how the decision of the firm to increase output affects private costs.

[8]

Rough Work