

SECTION A [20 MARKS]
ANSWER ALL QUESTIONS.

Question I

[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. Which type of unemployment occurs when graduates in Bhutan are temporarily between education and suitable job opportunities?
A cyclical unemployment
B frictional unemployment
C seasonal unemployment
D structural unemployment
2. Which combination only includes injections into the circular flow of income?
A savings, taxes and imports
B consumption, taxes and exports
C investment, government expenditure and exports
D consumption, investment and government spending
3. The information in the table below represents the sources of income of an economy.

Items	Amount (Nu. in million)
Depreciation	1000
Net factor income from abroad	– 200
Intermediate consumption	500
Indirect taxes	50
Gross value of domestic output at market price	4000

What is the value of Net Domestic Product at market prices, for the economy?

- A Nu. 2400 million
 - B Nu. 2500 million
 - C Nu. 2650 million
 - D Nu. 3500 million
4. A country increases its spending on education and healthcare. What is a likely outcome of this spending?
A a decrease in human capital
B an increase in unemployment
C a decrease in aggregate demand
D an increase in labour productivity

5. A country decides to remove trade barriers to allow free movement of exports and imports of goods and services. What is the likely effect of this decision?
- A reduced competition
 - B higher production costs
 - C higher consumer choice
 - D increased monopoly power
6. A country is experiencing a current account deficit. The Government of the country wants to increase foreign earnings rather than reduce consumer access to imported goods. What is the focus of this policy?
- A increasing import tariffs
 - B improving global market access
 - C decreasing subsidies for exports
 - D providing more licenses for imports
7. The central bank of Bhutan decides to reduce the Cash Reserve Ratio (CRR) of commercial banks. What is the likely outcome of this decision?
- A a fall in money supply and higher interest rates
 - B a decrease in credit creation and contraction of output
 - C a reduction in aggregate demand and lower bank reserves
 - D an increase in lending capacity and expansion of money supply
8. The value of the Ngultrum decreases compared to the currency of trading partners. How would this affect Bhutan's exports and imports?
- A Both exports and imports become cheaper.
 - B Both exports and imports become more expensive.
 - C Exports become more expensive and imports become cheaper.
 - D Exports become cheaper and imports become more expensive.
9. Which statement describes deficit financing?
- A financing expenditure through borrowing
 - B cutting public spending to match tax revenue
 - C raising taxes to eliminate government borrowing
 - D maintaining a budget surplus by reducing spending
10. What is the disadvantage of Foreign Direct Investment (FDI) for the host country?
- A outflow of profits
 - B an improvement in infrastructure
 - C a rise in productivity of local firms
 - D an increase in domestic investment

11. A country has a progressive system of taxation. What does the country want to achieve?
- A reduce income inequality
 - B reduced government borrowing
 - C decrease the indirect tax burden
 - D equal tax rates to all income groups
12. A commercial bank receives a new deposit of Nu. 500,000. The reserve requirement is 20%. What is the maximum credit created in the banking system?
- A Nu. 2,000,000
 - B Nu. 2,500,000
 - C Nu. 3,000,000
 - D Nu. 5,000,000
13. An economy is experiencing low growth and rising unemployment. Which fiscal policy measure might be used to address this situation?
- A increased taxation
 - B reducing transfer payments
 - C maintaining a balanced budget
 - D increasing government expenditure
14. The central bank carries out open market operations by selling government securities to commercial banks. What is the likely effect of these open market operations?
- A a decrease in interest rate
 - B an increase in investment
 - C a decrease in the money supply
 - D an increase in commercial bank reserves
15. A country operates a floating exchange rate system. What determines the value of its currency?
- A It is pegged against other currency.
 - B It is set by an international agreement.
 - C It is based on gold reserves held by the central bank.
 - D It is set by the demand and supply forces in the foreign exchange market.
16. A government needs to borrow when its expenditures exceed its revenues. Which borrowing option raises internal public debt?
- A borrowing from foreign central banks
 - B borrowing from multinational companies abroad
 - C borrowing from foreign governments and institutions
 - D borrowing from domestic individuals and financial institutions

17. A foreign company invests in a hydropower project in Bhutan and manages its operations. What is this an example of?
- A portfolio investment
 - B short-term bank lending
 - C foreign direct investment
 - D foreign government subsidy
18. Government revenue is used to finance development activities such as roads, schools, and healthcare. Which is the source of government revenue?
- A foreign exchange earnings received by exporting firms
 - B savings held by commercial banks in the financial system
 - C profit earned by private companies operating in the market
 - D taxes collected by the government from households and firms
19. A government may finance development projects through borrowing. What is the possible risk of high public borrowing for the government?
- A rise in unemployment
 - B fall in economic activity
 - C higher repayment burden
 - D reduction in tourism earnings
20. If a government plans to increase its spending on rural road development, what is the government aim to decrease?
- A budget deficit
 - B economic growth
 - C aggregate demand
 - D income inequalities

SECTION B [30 MARKS]
Answer all the questions.

Question II

Read the following text related to Impact of Price Fluctuations on Bhutan's Economy and answer all parts of the question.

[15]

Bhutan's economy is highly dependent on international trade, particularly with India, which accounts for over 70% of its total trade. Bhutan's major exports include electricity generated from hydropower, handicrafts, and agricultural products. At the same time, the country relies heavily on imports such as fuel, vehicles, machinery, and essential manufactured goods.

In recent years, Bhutan has experienced rising import costs, especially due to increases in global fuel prices. As fuel is essential for transportation and production, higher fuel costs have led to increased prices of goods and services across the country. This has placed financial pressure on households and increased operating costs for businesses, particularly in sectors such as agriculture, construction, and transport.

The rising cost of imports has contributed to inflation and affected employment levels in some industries. To address these challenges, the Government has introduced policies such as fuel subsidies, reductions in certain taxes, and adjustments in interest rates to stabilise the economy. However, these measures also have implications for government revenue and long-term economic sustainability.

1. State TWO benefits of export to Bhutan.

[2]

2. Describe how imports can support economic activities in a country.

[2]

3. Explain how the availability of natural resources in a country can influence its imports and exports. [3]

4. Evaluate the advantages and disadvantages of a country relying heavily on international trade with a single trading partner. [8]

Question III**[15]**

Read the following text related to Impact of Price Fluctuations on Bhutan's Economy and answer all parts of the question.

Bhutan has made significant progress in economic development, with improvements in infrastructure, education, and healthcare. However, recent reports highlight that the incomes of many households are only just sufficient to meet daily needs.

The rising cost of living, including increases in food prices, fuel and housing has placed additional financial pressure on low and middle-income families. While government revenue has increased, there are concerns that the increased revenue is not benefiting vulnerable groups.

To address these challenges, the government has increased public expenditure on social services and introduced policies aimed at supporting low-income households. However, higher spending has also led to concerns about budget deficits and long-term fiscal sustainability.

1. Identify TWO sources of government revenue in Bhutan.

[2]

2. Describe ONE benefit of government expenditure to low-income households in Bhutan.

[2]

3. Explain how the rising cost of living can affect the savings of households in Bhutan.

[3]

4. Evaluate whether fiscal policies alone will improve the living standards of people in Bhutan.

[8]

SECTION C (20 MARKS)

Answer all parts of the question.

Question IV

[20]

Read the following text related to Global Economic Issues and Bhutan and answer all parts of the question

Bhutan's economy is closely connected to the global economy through international trade and foreign investment. Recent global supply-chain disruptions and rising protectionism have increased the cost and reduced the availability of imported fuel, machinery, food and other essential goods, affecting Bhutanese businesses and consumers.

At the same time, changes in international trade are creating new opportunities and challenges for Bhutan. Carbon tariffs introduced by major trading markets may increase the cost of Bhutanese exports that do not meet environmental standards. In contrast, green FDI can support investment in renewable energy and environmentally sustainable industries. These developments may influence Bhutan's production costs, international competitiveness, economic growth and sustainable development.

1. Analyse how the increase in the cost and reduced availability of imported fuel, machinery and food could affect Bhutanese businesses.

[8]

2. Evaluate whether green FDI can support Bhutan's sustainable trade.

[12]
