

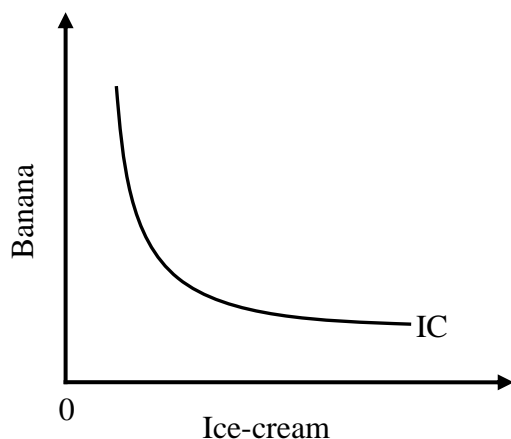
**SECTION A (50 MARKS)**  
**ANSWER ALL QUESTIONS**

**Question 1**

[15]

- a) 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.

- i. The following diagram shows the indifference curve of ice-cream and banana.



The consumption of banana decreases when a consumer consumes more units of ice-cream and vice-versa. The above description explains that

- A an indifference curve is negatively sloped.
  - B an indifference curve is convex to the origin.
  - C two or more indifference curves never intersect.
  - D a higher indifference curve gives higher level of satisfaction.
- ii. When the average cost of a firm is minimum,
- A the marginal cost is rising.
  - B the marginal cost is falling.
  - C the marginal cost is remaining constant.
  - D the marginal cost is equal to average cost.
- iii. Pema used data from the Ministry of Industry, Commerce and Employment to conduct research on Bhutan's youth unemployment rate. The source of data used by Pema is categorized under
- A primary published source.
  - B primary unpublished source.
  - C secondary published source.
  - D secondary unpublished source.

- iv. If the value of the Ngultrum increases 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 cheaper and imports become more expensive.
  - D Exports become more expensive and imports become cheaper.

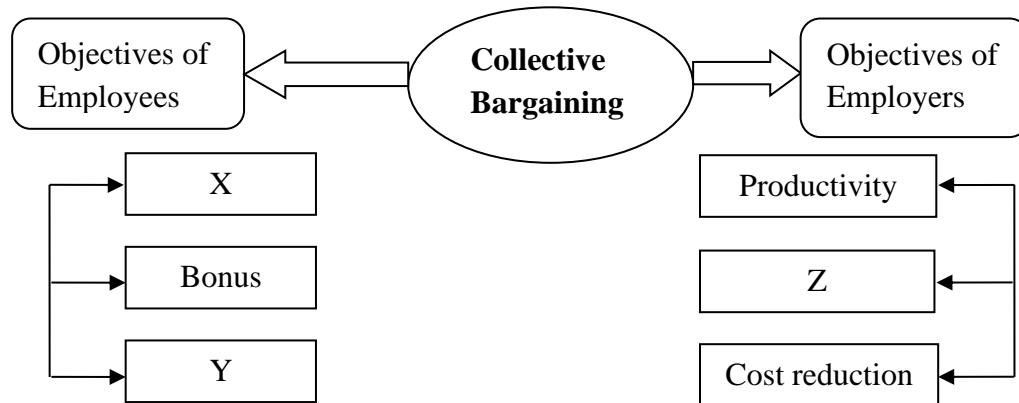
- v. The information in the given table represents the sources of income of an economy.

Sl. No	Items	Amount (Nu in million)
1	Depreciation	1000
2	Net factor income from abroad	- 200
3	Intermediate consumption	500
4	Indirect taxes	50
5	Gross value of output at market price	4000

The value of  $NDP_{MP}$  for the economy is

- A Nu 2400 million.
  - B Nu 2500 million.
  - C Nu 2650 million.
  - D Nu 3500 million.
- vi. The country's youth unemployment rate for the third quarter in 2023 is almost 16 %.  
(Source: Labour Force and Survey Report, NSB, 2023)
- The fiscal tools the government must implement to address this issue is by
- A reducing government expenditure and reducing public borrowing.
  - B increasing government expenditure and reducing taxes.
  - C increasing taxes and reducing government expenditure.
  - D reducing public borrowing and increasing taxes.
- vii. Under what circumstance would a government welcome an appreciation in its country's currency?
- A When the country has a high unemployment rate.
  - B When the country has a current account deficit.
  - C When the country is experiencing a recession.
  - D When the country has a high inflation rate.

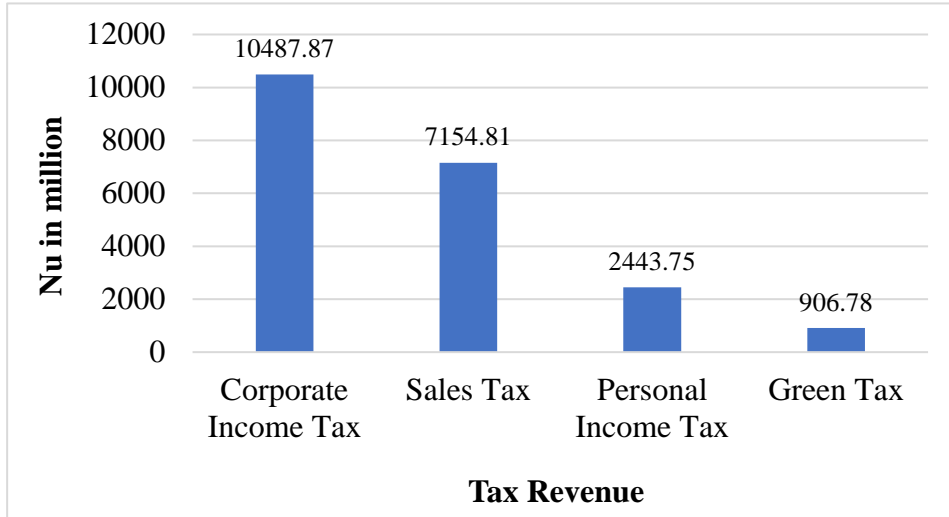
- viii. The chart below shows the process of wage negotiation in a labour market through collective bargaining.



Which of the following options best suits the missing objectives X, Y and Z in the above chart?

- A Productivity, more work and conflict.  
 B Cost reduction, productivity and job security.  
 C Lower wages, fewer incentives and cost escalation.  
 D Higher wages, conducive work station and performance.
- ix. Karma is solving a numerical problem on national income aggregates with a given set of data.  
 Which of the following methods is appropriate to Karma for accurately calculating  $GNP_{MP}$ ?
- A  $NNP_{MP} + \text{Depreciation} - \text{Net Indirect Taxes}$  .  
 B  $GNP_{FC} - \text{Net Factor Income from abroad} - \text{Depreciation}$  .  
 C  $NDP_{MP} + \text{Net Factor Income from abroad} + \text{Depreciation}$  .  
 D  $NDP_{FC} + \text{Net Indirect Taxes} + \text{Net Factor Income from abroad}$  .
- x. When a firm employs additional units of variable factor to the given units of fixed factor, what happens to the total product (TP) and the marginal product (MP) when the stage of diminishing return ends?
- A TP decreases and MP becomes negative.  
 B TP increases at a decreasing rate and MP falls.  
 C TP increases at an increasing rate and MP rises.  
 D TP reaches the maximum and MP becomes zero.

- xi. The following graph shows a hypothetical data of public revenue from taxes.



The proportion of indirect taxes to the total tax revenue is

- A 15.96 %.  
B 38.40 %.  
C 54.28 %.  
D 84.04 %.
- xii. In the context of using deficit financing to boost economic growth during recession or to fund major public investments and social programs, which of the following is **NOT** a desirable method of deficit financing?
- A Raising the taxes.  
B External aids and loans.  
C Printing of currency notes.  
D Issuing government bonds.
- xiii. International Economic Organizations (IEO) are institutions that promote economic cooperation and development among countries. Some of the functions of IEO are given below:
- I Reducing barriers to international trade.  
II Providing technical assistance and training to developing countries.  
III Reducing poverty across the globe.  
IV Research and analysis.
- Which of the above functions are executed by World Trade Organization (WTO)?
- A I, II, III and IV  
B II, III and IV  
C III and IV  
D I and III

xiv. A cement firm has the total fixed cost of Nu 40,000. The firm's average total cost is Nu 300 and the average variable cost is Nu 250. How many units of cement has the firm produced?

- A 73
- B 133
- C 160
- D 800

xv. A student was given the data for the following components of operating surplus.

- I Corporation tax
- II Rent
- III Interest
- IV Undistributed profits
- V Dividend

Which of the above combinations should the student choose to calculate the value of income from entrepreneurship?

- A I, II, IV
- B I, IV, V
- C II, III, IV
- D III, IV, V

**b) Fill in the blanks with appropriate word(s).**

[5]

i.	Gross interest includes ....., payment for risk, payment for inconvenience and cost of administration.	
ii.	During the period of slow economic growth, government needs to ..... the taxes.	
iii.	Kinley consumes excessive units of apples and experiences a fall in total utility. Thus, the marginal utility in this context is .....	
iv.	According to Total Revenue and Total Cost approach, profit is maximized when the difference between TR and TC is .....	
v.	Dawa Construction Company got the tender of road widening work of East-West highway. Later, the Department of Road issued a notification stating that the company also needs to construct retention walls along the road sides, which was not included in the original budget. Thus, the type of supplementary budget that the company needs to propose is .....	

- c) Match each item under column A with the most appropriate item in column B. [5]  
Write the correct letter in the space provided under the 'answer' column.

Answer	Column A	Column B
i.	i. Total product increases by more than proportion to increase in inputs	a) Imperfect Competition
ii.	ii. Total product increases at an increasing rate with additional units of variable inputs.	b) Average variable cost curve
iii.	ii. Average revenue of a firm is greater than its marginal revenue.	c) Private final consumption expenditure
iv.	iv. The cost curve is asymptotic to both the x-axis and y-axis.	d) increasing returns to scale
v.	v. Total revenue of the firm increases continuously with increase in its sales.	e) Average fixed cost curve
vi.	vi. It is a U-shape cost curve.	f) Savings and taxes
vii.	vii. The leakages in a circular flow of income.	g) Increasing returns to a factor.
viii.	viii. The expenditure made by schools, clubs, hospitals and other non-profit institutions.	h) Total fixed cost curve
ix.	ix. Expenditures on social welfare services and law and order.	i) Perfect competition
x.	x. The injections in a circular flow of income.	j) Total variable cost curve
		k) Exports and investment
		l) Government final consumption expenditure

**d) Write TRUE or FALSE for the following statements in the space provided. [5]**

<p>i. Bhutan Power Corporation Limited (BPCL) is the only firm providing electricity in Bhutan. On the other hand, Bhutan Telecom Limited (BTL) confronts huge competition from Tashi Cell in the provision of telecommunication services. Therefore, it is guaranteed that BPCL will not incur any loss in the short run as there are no competitors. ( )</p>	
<p>ii. The foregone salary an entrepreneur could have earned if he/she had worked for another company is an implicit cost. ( )</p>	
<p>iii. Average revenue of a firm is always equal to the price of the product it sells. ( )</p>	
<p>iv. Contractionary fiscal policy refers to the policy of government with regard to decreasing the taxes and increasing the expenditure. ( )</p>	
<p>v. While estimating <math>NNP_{FC}</math>, Dorji excluded the value of second-hand items but included the expenditure on self-consumption. Thus, Dorji has applied the right precautions for the estimation of national income. ( )</p>	

**e) Answer the following questions briefly.**

i. According to marginal utility analysis, the utility that a consumer derives from consuming the additional units of a commodity like ice-cream goes on diminishing. Create a utility schedule of ice-cream and explain how the law of diminishing marginal utility operates. [2]


- ii. Assume that your firm has reached the third stage of production, where the total product falls continuously with successive employment of variable inputs. Discuss **TWO** strategies that you would implement to increase the level of production of your firm. [2]

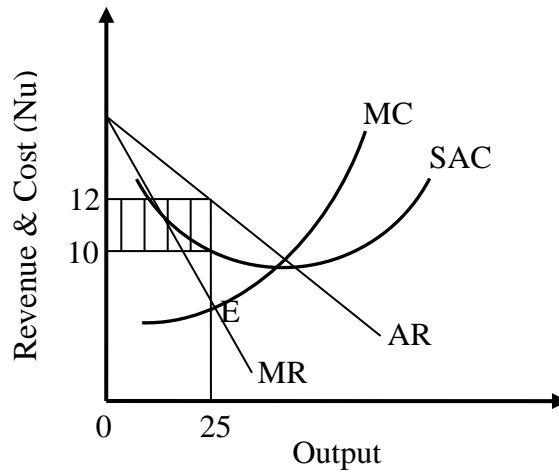

- iii. The officials of project DANTAK say they review the wages of roadside labours yearly and increase it by 3 to 5 percent. (Source: Kuensel, 22<sup>nd</sup> January 2024) What could be the considerations made by project DANTAK to increase the daily wages? [2]


- iv. Is external borrowing better than internal borrowing? Justify with **TWO** reasons. [2]


- v. Do you think the investment in technology always promotes international trade among different countries? Justify. [2]


- vi. For a country like Bhutan, it is better to choose the fixed exchange rate regime over the flexible exchange rate regime. Do you agree with the above statement? Justify your stand with **TWO** reasons. [2]


vii. For the diagram given below, calculate the amount of supernormal profit earned by the firm. [2]




viii. In Bhutan, foreign remittances are a silent force at work. Bhutanese people who migrate beyond their borders in search of new possibilities not only shape their futures but also contribute significantly to the development of their homeland. In what ways do you think foreign remittances would contribute to the development of home country? [2]


- ix. The financial assistance by India for Bhutan's 13<sup>th</sup> Plan has doubled compared to the previous support given during the 12<sup>th</sup> plan, which was Nu 50 billion.

(Source: Kuensel, March 23, 2024)

As a citizen of the country, what are your recommendations for the effective utilization of this grant? [2]


- x. By using the simple aggregative method, construct the price index number for the following data. [2]

Commodity	Prices in years (Nu)	
	2020	2023
Rice	50	60
Oil	140	150
Salt	15	20
Sugar	45	50
Milk	45	60


**SECTION B (50 MARKS)**  
**ANSWER ANY FIVE QUESTIONS**

**Question 2**

a) Define the following terms

i. Marginal Product

[1]


ii. Short-run production function

[1]


iii. Long-run production function

[1]


- b) The information on sources of income of an economy during a certain year is given below.

Sl. No	Items	Nu in million
1	Wages and salaries	350
2	Rent	120
3	Net factor income earned from abroad	(-) 90
4	Interest	80
5	Undistributed profit	100
6	Mixed income	150
7	Corporation tax	130
8	Consumption of fixed capital	140
9	Net indirect taxes	70

- i. Compute Operating surplus [1]


- ii. Compute  $NNP_{FC}$  [2]


- c) Bhutan's economic growth is forecast to slow down at 4 percent in the fiscal year 2023–24 following a drop in the public investment and capital expenditure, said World Bank in its biannual Global Economic Prospects' Report.

*(Source: Kuensel, 15<sup>th</sup> January 2024)*

- Propose **FOUR** strategies that the country needs to plan and implement to prevent such economic downfall. [4]



**Question 3**

a) Can deficit financing perpetually lead to overall transformation of economic activities in a country? Explain.

[3]

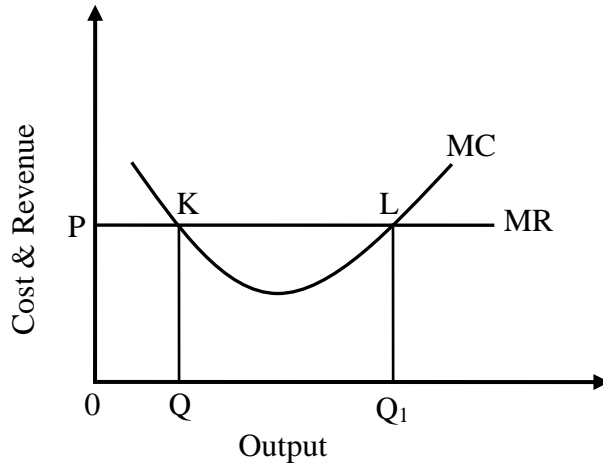

b) Classify the following public expenditures as current or capital expenditure.

- a. Office stationery items
- b. Purchase of computers
- c. Maintenance of roads
- d. Subsidies

[2]

Current Expenditure	Capital Expenditure	

- c) The following diagram shows the marginal revenue and marginal cost curves of a firm under perfect competition.



- i. Which point represents the profit maximizing point? Why? [2]


- ii. What does it signify when the MC is greater than MR? [1]


- d) Pema has USD 1,000 which she wishes to exchange with BTN from RMA when the exchange rate is USD 1 = BTN 82. How much BTN will Pema get?  
 Few days later, the exchange rate changed to USD 1 = BTN 84 and she wishes to exchange the above amount of BTN with USD, how much amount of USD will she get? [2]




ii. Tourism

[1]

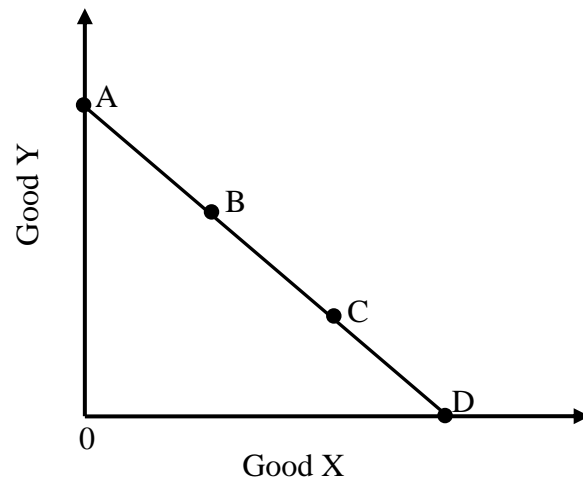

iii. Agriculture

[1]


iv. Hydro-power

[1]


c) The budget line of a consumer for two commodities X and Y is given below.

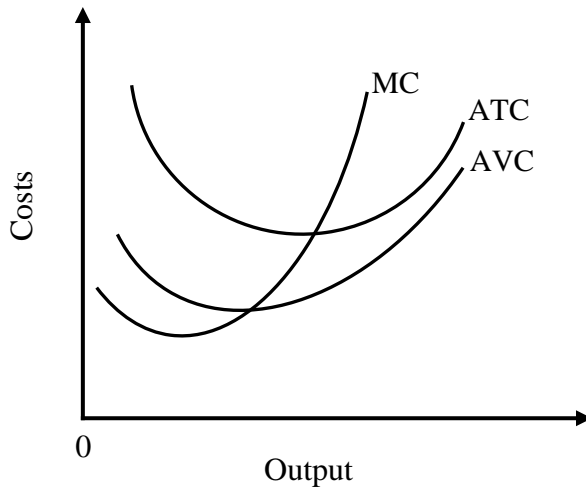


With reference to the above diagram, mention **TWO** properties of a budget line.

[2]


**Question 5**

- a) The following diagram shows the average variable cost, average total cost and marginal cost of a firm.



- i. What relation can you derive between the AVC and MC? Discuss **ONE** relationship between AVC and MC. [1]


- ii. How is the amount of average fixed cost interpreted in the above diagram? [1]


- iii. With successive increase in output, the difference between ATC and AVC goes on decreasing. Why? [2]


- b) Your parents have a poultry farm in the village. Till last year, both the prices and sales of the products were favourable. However, the farm started experiencing a decline in sales and revenue this year due to market saturation and new competitors. As an educated member of the family, what strategies would you recommend to your parents to increase the sales of the poultry products? [3]


- c) Discuss **THREE** importance of preparing budget in Bhutan. [3]






**Question 7**

a) According to the 'Modern Theory of Rent', economic rent is paid to a factor which is perfectly inelastic or relatively inelastic in supply. To substantiate the above statement, draw appropriate diagrams to represent the following situations.

i. Economic rent is equal to actual earning.

[2]

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ii. Economic rent is equal to zero.

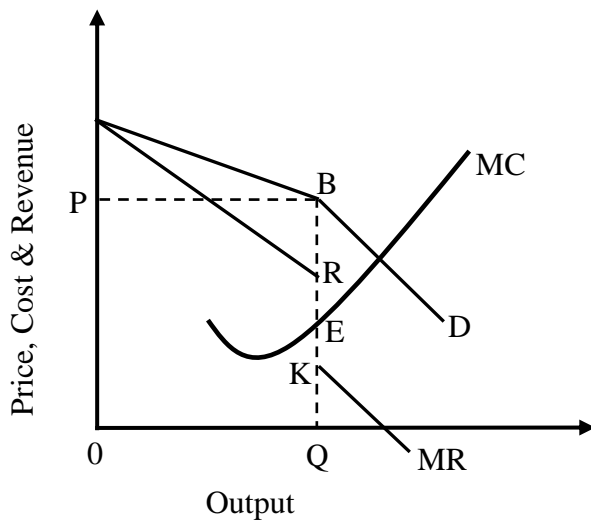
[2]

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- b) Can a sudden depreciation in a country's currency foster industrial development? Justify with **TWO** reasons. [2]


- c) Bhutan's debt management strategy focusses on ensuring that the country's debt remains sustainable, keeping the debt-GDP-ratio within manageable limits. Which methods of debt redemption should Bhutan follow in achieving the above objective? Explain any **TWO** methods. [2]


d) The diagram below shows the equilibrium of a firm under oligopoly market.



i. Why does the MR curve have a discontinuous range between the points R and K? [1]


ii. How will the behaviour of one firm impact the other firms in such market structure? [1]
