

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. According to marginal utility analysis, a rational consumer will attain equilibrium when the marginal utility of good is

- A equal to zero.
- B equal to its price.
- C less than its price.
- D greater than its price.

ii. A person quit his job and opened up a furniture showroom with all his savings. The implicit cost involved for opening the new furniture showroom is

- A cost of inputs.
- B wages to salesmen.
- C cost of showroom setup.
- D income earned from the previous job.

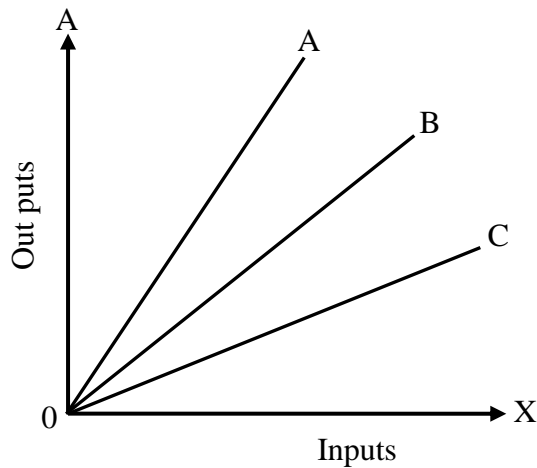
iii. The information in the following table shows the sources of income in an economy, calculate the compensation of employees.

Sl. No	Items	Nu (million)
1	Employers' contribution to social security	300
2	Interest	640
3	Wages and salaries	1,800
4	Mixed income	70

- A Nu 710 million
- B Nu 2,100 million
- C Nu 1,870 million
- D Nu 2,440 million

- iv. Bhutan is experiencing a notable rise in European tourists due to strategic initiative by the government to attract more visitors and stimulate economic growth. How might this affect the exchange rate of the Bhutanese ngultrum against the Euro?
- A The exchange rate will remain unchanged.
 - B The Euro will appreciate against the Ngultrum.
 - C The Ngultrum will depreciate against the Euro.
 - D The Ngultrum will appreciate against the Euro.
- v. Data on household income and consumption is being collected through telephonic interviews with a group of correspondents. The source of data in this case is
- A secondary data from published sources.
 - B secondary data from unpublished sources.
 - C primary data from indirect oral investigation.
 - D primary data from direct personal investigation.
- vi. "Bhutan faces challenges in raising enough domestic revenue due to its narrow tax base and complex tax structure". This has resulted in slow revenue growth and hindered long-term economic stability in the country. The fiscal policy tool that can address the issue is
- A decrease tax and reduce borrowing.
 - B decrease tax and increase borrowing.
 - C increase tax and reduce government spending.
 - D decrease tax and increase government spending.
- vii. The exchange rate between the Bhutanese Ngultrum and the US Dollar is 87 BTN to 1USD. Over time, this rate changed to 90 BTN to 1USD. What will be the consequences of such a change?
- A Bhutanese exports to the US will become cheaper.
 - B Bhutanese imports from the US will become cheaper.
 - C Bhutanese exports to the US will become more expensive.
 - D The value of the Ngultrum will appreciate relative to the US dollar.
- viii. The economic rent for a factor for which the supply is fixed and cannot be transferred to other use will be equal to
- A zero.
 - B contract rent.
 - C actual earning.
 - D transfer earning.
- ix. Which of the following are the leakages in the circular flow of income?
- A Saving + import payment + tax.
 - B Investment + export receipt + tax.
 - C Investment + import payment + tax.
 - D Saving + import payment + investment.

- x. The following diagram represents the return to scale in a production.



Why does curve B represent constant returns to scale?

- A Increase in input results in decrease in output.
 - B Increase in output is equal to increase in input.
 - C Increase in output is more than increase in input.
 - D Increase in output is lesser than increase in input.
- xi. The table below shows a government's hypothetical tax revenue for FY 2024-2025.

Sl.no	Tax items	Nu. (million)
1	CIT	8,362.540
2	Sales tax	5,720.44
3	Domestic excise duty	523.44
4	Property tax	2,549.56
Total		17,155.98

The percentage share of direct tax is

- A 48.74%.
 - B 66.65%.
 - C 63.60%.
 - D 14.86%.
- xii. If the government increases deficit financing to fund a large-scale infrastructure project, which of the following is a potential long-term benefit?
- A Increase in disposable income.
 - B Immediate reduction in national debt.
 - C Increase money supply in the economy.
 - D Increase economic productivity and growth.

xiii. Some of the functions of World Trade Organization (WTO) and World Bank are given below:

- I. Ensuring transparency of trade policies.
- II. Reducing barriers to international trade.
- III. To provide financial assistance to least developed countries.
- IV. Setting a negotiation forum for multilateral trade agreement.

Which of the above statements best describe the functions of WTO?

- A I, II and III
- B I, III and IV
- C I, II and IV
- D II, III and IV.

xiv. A company plans to build a new factory near a residential area. All of the following will be the social costs of the new factory, EXCEPT

- A Public Health
- B Traffic congestion
- C Environmental impact
- D Taxes to government

xv. What must be added to Gross Domestic Product at market price to get Gross National Product at market price?

- A Depreciation.
- B Net Indirect Taxes.
- C Factor receipts from abroad.
- D Net factor income from abroad.

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

[5]

i.	The minimum amount necessary to keep the factor in its present employment is termed as _____	
ii.	During recession, the government use _____ fiscal policy to stimulate economic activities.	
iii.	The indifference curve slopes from left to right making it _____ to the origin.	
iv.	When the equilibrium condition of the firm is similar to monopoly and behaves like monopolist, it is called as _____ oligopoly.	
v.	In most of the towns, roads and public buildings are ageing and are in need of immediate attention. The state can finance these demanding public services using available domestic revenue. These expenditures are called _____ expenditure.	

c) Match each item in column A with the most appropriate item in column B. Write the correct alphabet in the space provided in the 'Answer' column.

[5]

Column A	Column B	Answer
i. The state of technology is given and remain unchanged in the production process.	a) Implicit cost	i.
ii. The output produced per unit of input employed	b) Imperfect competition	ii.
iii. Average revenue of a firm is same throughout the level of output	c) Marginal cost	iii.
iv. The additional cost incurred from producing an additional unit of output	d) Perfect competition	iv.
v. The individual firm can influence the price to increase its sales revenue.	e) Net Factor Income from Abroad	v.
vi. The expenses incurred by the firm on hiring the factors of production.	f) NNP_{MP}	vi.
vii. The difference between national product and domestic product.	g) Long-run	vii.
viii. The sum of compensation of the employees, operating surplus and mixed income.	h) Average product	viii.
ix. $GNPMP - \text{Depreciation}$	i) Explicit cost	ix.
x. The differences between Indirect tax and subsidy.	j) Short-run	x.
	k) Net Indirect Tax	
	l) NDP_{FC}	

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

Statements	Answer
i. In a perfectly competitive market, a firm faces a horizontal demand curve. This means that they cannot influence the market price of goods.	
ii. The Total Fixed Cost curve originates from the origin and is constant at all levels of output produced.	
iii. In the short run, a firm will continue to produce even if it incurs losses as long as it covers its variable cost.	
iv. Fiscal policy is primarily concerned with controlling the money supply in the economy.	
v. In a circular flow of income, the government can influence the flow of income through various policy measures. For instance, during recession, the government can increase its spending to stimulate economic activity.	

e) Answer the following questions briefly.

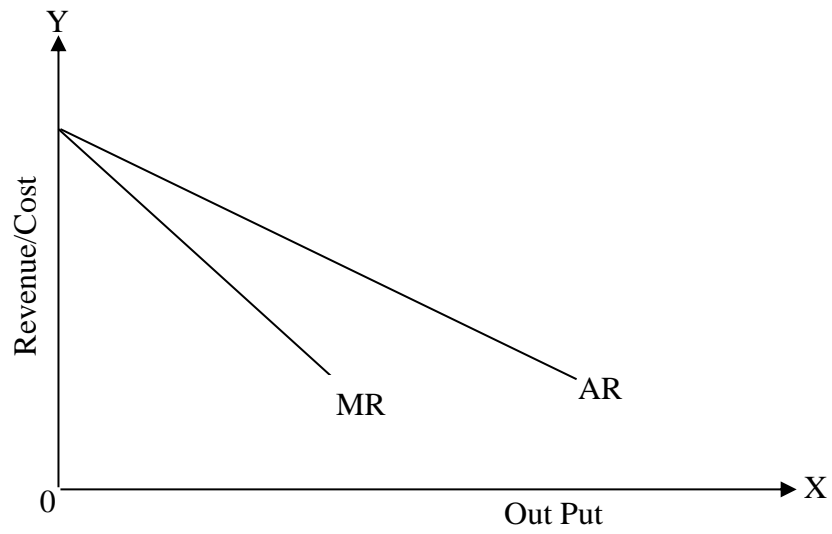
i. A consumer allocates Nu 300 on buying butter and cheese. Price of butter and cheese per kg are Nu 100 and Nu 50 respectively. Using a budget schedule, compute the possible combinations of two goods that can be consumed by the consumer. [2]

- ii. The management of a factory is planning to employ additional variable factor in their existing production process. Is it advisable to go for additional unit of variable factor? Justify with **TWO** points. [2]

- iii. Collective bargaining helps to create a balanced relationship between the employers and employees in determining wages. [2]
How does a higher bargaining power of trade union benefit the employees?

- iv. Bhutan, being a developing economy, depends mostly on external borrowing for developmental activities. Can our country rely continuously on external borrowing? [2]

- vii. The graph below shows the AR and MR curves under monopolistic competition. Draw the AC and MC curves to represent a firm incurring loss. [2]



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- viii. What will happen to an economy if the household sector does not supply adequate factor services? Mention any **TWO** points. [2]

- ix. “The revenue from the property tax for the income year 2023 grew by 911.9% compared to the revenue collection in the previous year.”
(source: Kuensel, June 11th 2024) [2]
 Explain **TWO** potential benefits of the above situation on the country’s economy.

- x. Construct a pie diagram using the data given below. [2]

Sector	Share to GDP (%)
Agriculture	20.4
Industry	35.1
Service	44.5

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SECTION B [50 MARKS]
ANSWER ANY **FIVE** QUESTIONS

Question 2

- a) What are the different stages of law of variable proportion? Briefly describe each stage with reference to Total Product. **[3]**

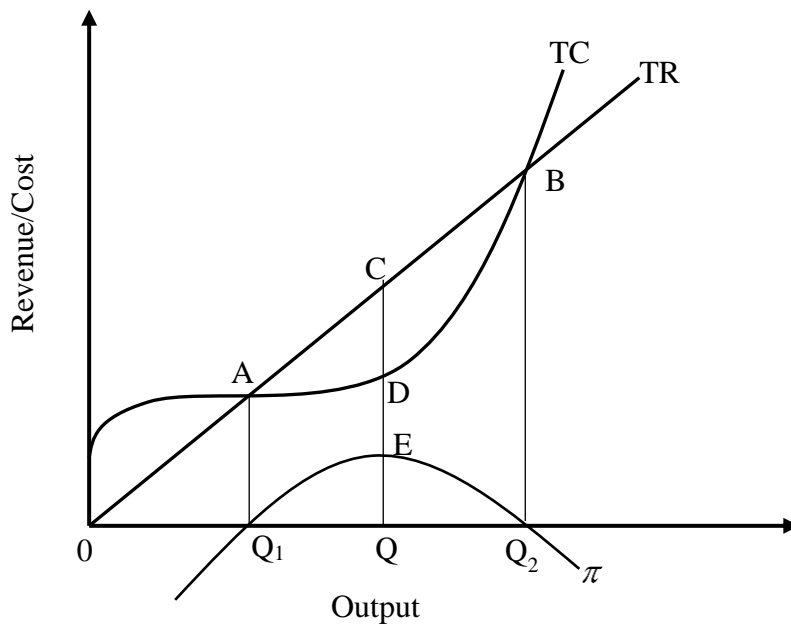
- b) The table below shows hypothetical data in an economy.

SL No	Items	Amount (in Million Nu)
1	Government consumption and expenditure	1,700
2	Net indirect tax	1,500
3	Net export	-500
4	Gross capital formation	2,500
5	Private final consumption expenditure	14,000
6	Net increase in stock	500
7	Net factor income from abroad	500
8	Consumption of fixed capital	1,200

Using the above information calculate;

- i. Gross Domestic Product at Market Price. **[1]**

c) Study the figure and answer the questions that follow



i. Why point A is a break-even point?

[1]

ii. What level of output should a firm produce to maximise profit? Why?

[2]

- d) What will happen to the equilibrium exchange rate if more Bhutanese travel to United States of America. Represent it diagrammatically.

[2]

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Question 4

- a) State **TWO** differences between Marginal Utility and Indifference Curve analysis.

[2]

Marginal utility analysis	Indifference curve analysis

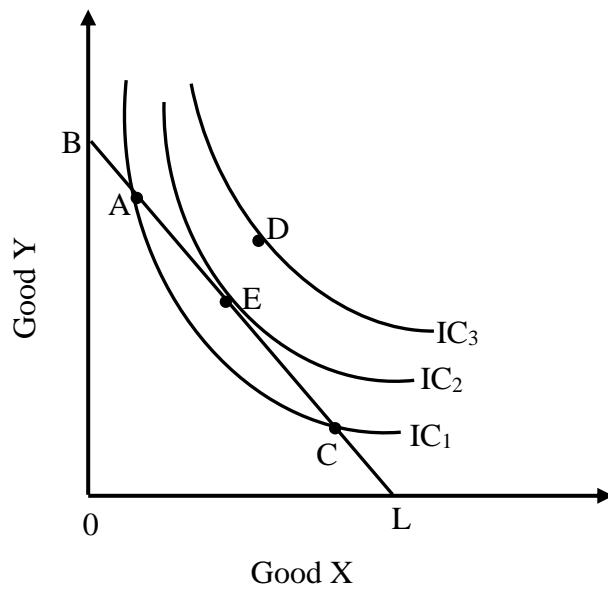
c) Compute the missing values of TP, AP and MP

[2]

Fixed Factor	Variable Factor	TP	AP	MP
1	1	a	b	10
1	2	c	15	d

a:	
b:	
c:	
d:	

d) Refer the graph and answer the question that follows

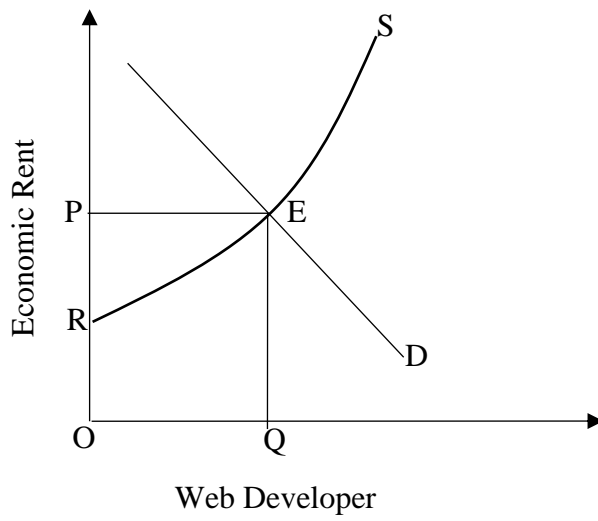


i. Why is point E preferred over point A and C?

[2]

Question 7

a) The graph below represents the supply of web developers in the market.



i. Suppose the demand for the web developers increase in the market, what is the effect on web developers economic rent. Show it diagrammatically. **[2]**

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- ii. Determine the amount of Actual Earning and Transfer Earning of the web developer. [2]

- b) Do you think the 1:1 exchange rate peg between the Bhutanese Ngultrum (BTN) and the Indian Rupee (INR) is beneficial for Bhutan's economy? [2]
Support your opinion with **TWO** points.

- c) Bhutan's national debt to GDP stands at 131.1%.
(source: NSB, 2022-23)
A large national debt means a significant portion of the government's budget goes towards interest payment on debt.
How might this impact Bhutan's future development goal? [2]

- d) A firm under perfectly competitive market can earn abnormal profit or normal profit, and may incur loss in the short run. However, in the long run, these firms earn only normal profit. Why? Give **TWO** reasons.

[2]

