

# ECONOMICS

(Three hours and a quarter)

(The first 15 minutes of the examination are for reading the paper only.  
Candidate must NOT start writing during this time).

Answer **Question 1 (compulsory)** from **part I** and **SEVEN** questions from **part II**.  
The intended marks for questions are given in [ ].

## Part I- Compulsory

### Question1.

[30 marks]

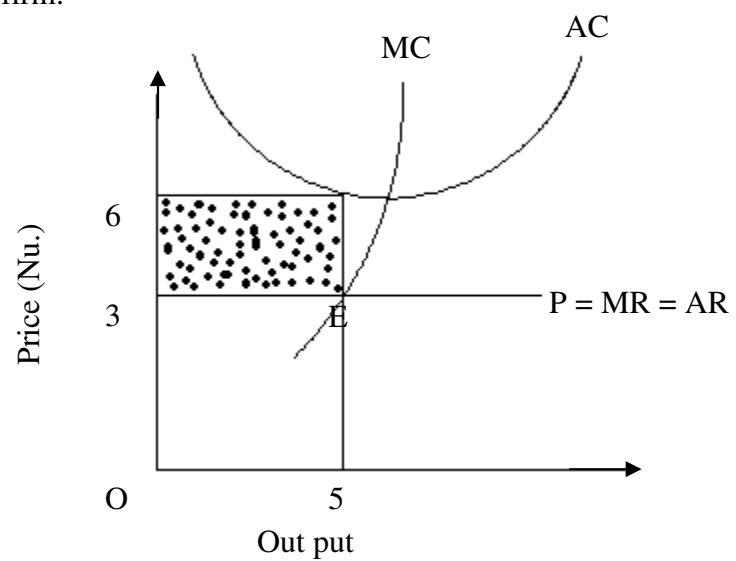
Answer briefly each of the items (i) to (xv) in this question.

- i) Why are transfer payments excluded from national income estimate?  
Give **TWO** reasons. [2]
- ii) Write **TWO** most important achievements of the 9<sup>th</sup> FYP. [2]
- iii) Draw a demand curve to show the proportionate change in demand is equal to the proportionate change in price. [2]
- iv) Given below is a demand schedule for sugar. [2]

Price(Nu.)/kg	Qty(Kg)
20	6
25	5

Estimate the price elasticity of demand for sugar ( $E_p$ ).

- v) From the diagram given below, calculate the amount of loss incurred by the firm. [2]



vi)

Product	Bhutan(kg)	Bangladesh(kg)
Potato	1000	800
Jute	600	500

Assuming that the resources are allocated equally; from the above table calculate opportunity cost for Bhutan

- i) Potato in terms of jute. [1]
- ii) Jute in terms of potato. [1]
- vii) Differentiate between the increasing and the diminishing returns to a variable factor. [2]
- viii) Write **TWO** differences between the final goods and the intermediate goods. [2]
- ix) Distinguish between the incidence and the impact of taxation. [2]
- x) How is capital expenditure different from revenue expenditure? [2]
- xi) How does the deficit financing differ from the budgetary surplus? Give **TWO** differences. [2]
- xii) "Public borrowing by a government is considered engine of growth". Why? Give **TWO** reasons. [2]
- xiii) Mention **TWO** of the situations when the trade union may be successful in increasing the wage rate. [2]
- xiv) Write **TWO** consequences if there is no export. [2]
- xv) "The BOP account is always balanced". Why? Give **TWO** reasons. [2]

## PART II

(Answer any **SEVEN** questions)

### Question 2.

- a) Explain **FOUR** determinants of elasticity of supply. [4]
- b) How is Bhutan in 2008 different from Bhutan of early 1960s in terms of development of social sectors. Mention any **THREE** significant differences. [6]

**Question 3.**

- a) Describe Marginal Productivity Theory of Distribution. [3]
- b) With the help of a diagram, explain how an increase in the demand of a commodity affects the equilibrium price and quantity when supply remains unchanged. [3]
- c) Give **ONE** difference between ‘repudiation’ and ‘refunding’. [3]

**Question 4.**

- a) Identify **SIX** merits of an international trade. [6]
- b) Draw suitable diagrams to represent the various degree of price elasticity( $E_p$ ) of demand given below. [4]
  - i)  $E_p = 0$       ii)  $E_p = 1$       iii)  $E_p < 1$       iv)  $E_p > 1$

**Question 5.**

- a) Using a diagram, explain how a firm’s equilibrium situation is determined in the long run under perfect competition. [5]
- b) “The development strategy of the 9<sup>th</sup> FYP is drawn from the development philosophy of GNH”. Relate the statement with **FIVE** objectives of the 9<sup>th</sup> FYP. [5]

**Question 6.**

- a) Define internal and external economies of scale. Mention **THREE** internal economies of scale. [5]
- b) “Deficit in the balance of payment is not necessarily bad for a country like Bhutan”. Give **FOUR** reasons in support of the statement. [5]

**Question 7.**

- a) Write short notes on: [3]
  - i) Money flow
  - ii) Real flow
- b) How can you derive  $NDP_{fc}$  from  $GNP_{mp}$ ? Mention the steps involved in its derivation. [3]
- c) Briefly explain how national income is calculated using income method. [4]

**Question 8.**

- a) Write **THREE** types of budgetary releases. [3]
- b) Give **ONE** difference between expenditure on urbanization and expenditure on administrative machinery. [3]
- c) “GNH is the best indicator of an economic growth”. Support the statement with **TWO** relevant reasons. [4]

**Question 9.**

- a) State any **TWO** reasons why deficit financing becomes necessary. [3]
- b) Write **FOUR** differences between the external and the internal trade. [4]
- c) Suggest **ONE** fiscal policy for each to promote [3]
  - i) economic growth and
  - ii) equity for a country like Bhutan

**Question 10.**

- a) TP, AP & MP Schedule of a firm [5]

No. of workers	Total Product (TP)	Average Product (AP)	Marginal Product (MP)
1	5	-	5
2	14	7	9
3	30	10	-
4	52	-	-
5	-	14	-
6	84	-	-
7	-	13	7
8	96	12	5
9	96	-	0
10	90	9	-6

Copy the above table and fill in the blanks.

- b) Write **FIVE** differences between direct and indirect taxes. [5]