

# ECONOMICS

*(Three hours and a quarter)*

*(The first 15 minutes of the examination are for reading the paper only.  
Candidates 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)

### QUESTION 1

**(30marks)**

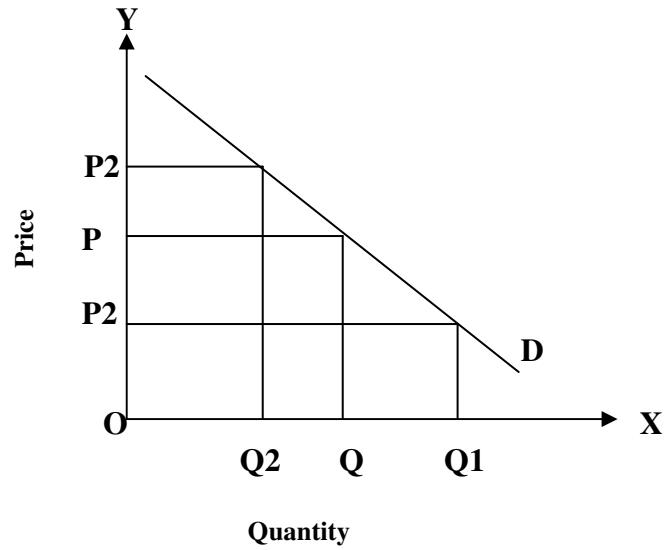
Write a brief answer to each of the items (i) to (xv) in this question.

- (i) List **TWO** reasons for the growth of public expenditure in Bhutan. (2)
- (ii) What happens to TP, if
  - a)  $MP = 0$
  - b)  $MP = \text{Negative}$  (2)
- (iii) How is  $VMP = MRP$  under a perfect competition market? Explain. (2)
- (iv) What would happen to the basis of trade between two countries if one country produces more of both the commodities compared to another country? (2)
- (v) Using a diagram, show how demand changes with a fall in population. (2)
- (vi) From the given table, find out TVC and MC. (2)

Output	TFC	TVC	TC	MC
0	20		20	
1	20		50	
2	20		70	
3	20		80	
4	20		110	
5	20		150	

- (vii) 'Increase in GDP cannot promote the happiness of people'. Do you agree? Give **TWO** reasons.

- (viii) Suggest **ONE** method as to how fiscal policy helps to overcome depression and unemployment.
- (ix) Define the term 'Deficit Financing'. (2)
- (x) In the diagram given below, explain **TWO** types of movement along the demand curve. (2)



- (xi) Derive:
  - a) GDP mp from GDP fc
  - b) GDP mp from NDP mp
 (2)
- (xii) Why do you think 'International trade' is vital for the Bhutanese economy? Give **TWO** reasons. (2)
- (xiii) Write **TWO** differences between refunding of debt and repudiation of debt. (2)
- (xiv) How does comparative cost theory help in the growth of International trade? (2)
- (xv) The objectives of 9<sup>th</sup> FYP seem to be drawn from the concept of GNH. Give **TWO** examples. (2)

## PART II

Answer any **SEVEN** questions

### QUESTION 2

- a) Explain the different types of price elasticity of demand. (5)
- b) Describe how the law of variable proportions helps producers in making decisions regarding their output. (5)

### QUESTION 3

- a) Explain any **FIVE** determinants of supply. (5)
- b) Explain how 'preservation and promotion of our culture' and 'good governance' help in achieving GNH. (5)

### QUESTION 4

- a) Using a diagram, show a firm under perfect competition, earning a normal profit in the long run. (5)
- b) Mention **TWO** similarities and **THREE** differences between the objectives of 8<sup>th</sup> FYP and 9<sup>th</sup> FYP. (5)

### QUESTION 5

- a) "There is the possibility of booms and depressions of one country being transmitted to other countries of the world through international trade".  
  
In the light of the above statement, write **FIVE** demerits of International trade. (5)
- b) i) Show with the help of a diagram, the various flows of income and expenditure in a closed economy. (3)  
  
ii) Write **TWO** ways of avoiding 'double counting' in the calculation of national income. (2)

### QUESTION 6

- a) Describe **FIVE** criticisms of the Ricardian Theory of rent. (5)
- b) Using a diagram, explain the relationship between AR and MR under an imperfect competition. (5)

**QUESTION 7**

- a) Discuss any **FIVE** measures to correct disequilibrium in the balance of payments. (5)
- b) Write **THREE** similarities and **TWO** differences between internal and external trade. (5)

**QUESTION 8**

- a) Define public debt. Explain **TWO** positive and **TWO** negative effects of public debt. (5)
- b) How does fiscal policy help in achieving economic growth and equitable distribution of income and wealth? Write **FIVE** ways. (5)

**QUESTION 9**

- a) From the following data, calculate the Net National Product at factor cost, using the expenditure method. (5)
  - i) Private final consumption expenditure Nu. 10m
  - ii) Government final consumption Nu. 15m
  - iii) Gross domestic capital formation Nu. 20m
  - iv) Net exports of goods and services Nu. 25m
  - v) Depreciation Nu. 5m
  - vi) Net indirect taxes Nu. 15m
  - vii) Net factor income earned from abroad Nu. 20m
- b) Suggest **FIVE** ways how deficit financing helps in economic growth. (5)

**QUESTION 10**

- a) Define budget. Explain **FOUR** reasons why budget is needed. (5)
- b) What would have happened to our economic growth, if development of private sector and regional balance development were not given importance in the 7<sup>th</sup> Five Year Plan? (5)