

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 any SEVEN questions from Part II.

The intended marks for question are given in brackets [].

PART I – Compulsory

[30 marks]

Question1.

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

- i) What do you understand by the term ‘Macro Economics’? [2]
- ii) The price of a kilogram of apple increases from Nu.5 to Nu.10 and quantity demanded decreases from 30 kgs to 20 kgs. Calculate the price elasticity of demand using percentage method. [2]
- iii) Differentiate between total product and marginal product. [2]
- iv) Draw a diagram to show equilibrium of a firm in a perfectly competitive market with profit maximization conditions. [2]
- v) What is Marginal Productivity Theory? [2]
- vi) Differentiate between material goods and non-material goods. [2]
- vii) How can we avoid ‘double counting’ in calculating national income? [2]
- viii) Mention **ONE** adverse effect of international trade on the domestic industries in Bhutan. [2]
- ix) What will happen to the surplus production of apples in Bhutan if Bhutan engages in international trade? [2]
- x) Is current account same as balance of trade? Give **ONE** reason to validate your answer. [2]

- xi) How is corporate income tax similar to direct tax? [2]
- xii) What would happen to the availability of goods in a country if it has huge external debt? [2]
- xiii) Bring out **TWO** relationships between deficit financing and economic development in a developing economy like ours. [2]
- xiv) Differentiate between rolling budget and supplementary budget in context of the Bhutanese economy. [2]
- xv) Sustainability was an objective of 7th FYP. What would happen if sustainability is not maintained? [2]

PART II

(Answer any SEVEN questions)

Question 2.

- a) Explain any **THREE** determinants of supply other than the “price of the commodity”. [3]
- b) With the help of a suitable diagram, explain any **TWO** reasons for a positively sloping demand curve. [3]
- c) Write any **TWO** outcomes each for the Sixth and Seventh Five Year Plans in the field of communication sector. [4]

Question 3.

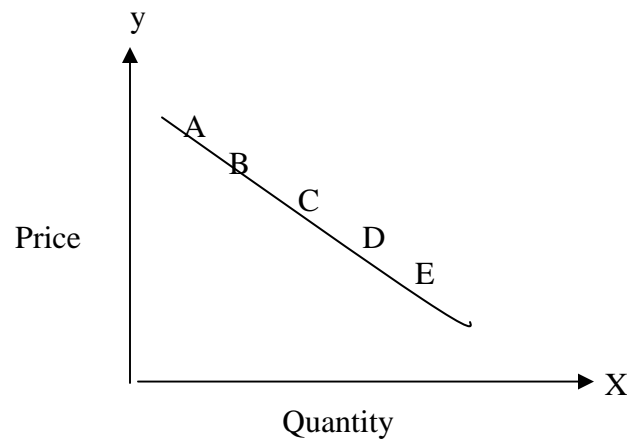
- a) Write any **FOUR** criticisms of Ricardian Theory of rent. [4]
- b) Public debt (public borrowing) and deficit financing are the two methods of meeting financial needs of a country. Write **TWO** positive effects and **TWO** negative effects of each. [6]

Question 4.

- a) Describe the Theory of Absolute Cost as a basis for international trade. [5]

- b) Using the curve given below, calculate price elasticity of demand at points A, B, C, D and E and also identify the type of elasticity.

[5]



Question 5.

- a) Using a labelled diagram, explain the short-run equilibrium of a firm incurring losses under monopoly.
- b) “Conservation of environment, Reduction of poverty and Generation of employment” are three of the many objectives of the Ninth Five Year plan. Formulate **ONE** practical method for achieving each of these objectives.

[5]

[5]

Question 6.

- a) What are internal economies? Describe any **FOUR** types of external economies.
- b) If you are entrusted with the responsibility of correcting the unfavourable balance of payment situation in our economy, Mention **FIVE** methods you would adopt.

[5]

[5]

Question 7

- a) Draw and explain the equilibrium condition required for circular flow of income in a three-sector model.

[5]

- b) Calculate national income by income method using the data given below. [5]

| | Nu. in million |
|------------------------------------|----------------|
| i) Compensation of employees | 22,000 |
| ii) Subsidies | 7,000 |
| iii) Indirect taxes | 10,000 |
| iv) Operating surplus | 15,000 |
| v) Depreciation | 5,000 |
| vi) Mixed income | 25,000 |
| vii) Net factor income from abroad | (-) 1000 |

Question 8

- a) What do you mean by budget? Explain any **TWO** needs for preparing budget. [3]
- b) Compare the growth in Bhutan’s public expenditure between the First Five Year plan and the Ninth Five Year plan giving reasons for the increase in public expenditure. [5]
- c) Write down any **TWO** possible objectives of Eighth Five Year plan related to the concept of GNH. [2]

Question 9

- a) What is ‘Deficit Financing’? Explain any **TWO** reasons for meeting financial needs of a government through deficit financing. [3]
- b) Mention **TWO** significant similarities between internal and external trade. [2]
- c) How can fiscal policy bring about equal distribution of wealth and income in an economy? [5]

Question 10

- a) Using a labelled diagram, explain the three stages of the Law of Variable Proportions. [10]