

PART I (Compulsory)

QUESTION 1

[30 marks]

Answer briefly each of the following questions:

i) Mention any **TWO** objectives of the 5th Five Year Plan.

[2]

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ii) If the income elasticity of demand is negative, what can you say about the nature of the commodity?

[2]

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iii) If the price of a pen falls from Nu 20 per unit to Nu10 per unit, its supply contracts from 17 units to 13 units. Calculate the elasticity of supply.

[2]

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- iv) The exchange rate of Ngultrum against US\$ changes from US\$1 = Nu 55 to US\$1 = 65. What implication does it have on the Bhutanese economy? [2]

- v) How is NNP_{FC} derived from GNP_{mp} ? [2]

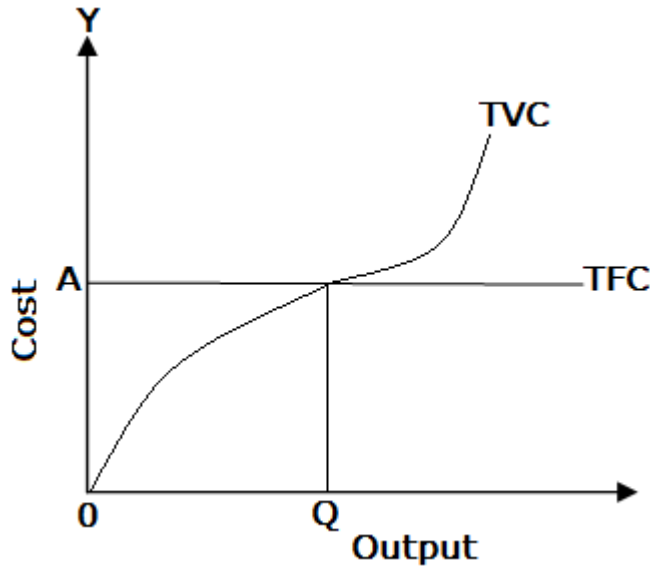
- vi) Study the table below and answer the question.

Country	Production in units	
	Potato	Onion
Bhutan	100	90
India	80	120

- Which country has absolute advantage in the production of potatoes and why? [2]

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- vii) If Dorji purchases inputs worth Nu 1 million to produce an output worth 3 million,
on what amount will the value added tax be calculated? [2]
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- viii) Study the given diagram: [2]



Explain why TFC and TVC curves start from different points?

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ix) Explain why any profit maximizing firm continues to produce even when it incurs losses in the short run.

[2]

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x) Why economic rent is zero when the supply curve of a factor is perfectly elastic?

[2]

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xi) Machinery, equipments and plants are not consumer goods. Why?

[2]

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xii) Mention **ONE** similarity and **ONE** difference that you find in the objectives of the 1th and 2nd Five Year Plans.

[2]

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xiii) “GNH brings about a judicious balance between spiritual and material advancement of the Bhutanese people.” Do you agree? [2]

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xiv) Write **TWO** differences between contractionary and expansionary fiscal policies. [2]

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xv) The government has introduced taxes like Green tax and Voucher tax to increase the revenue of the country. Suggest another new tax and justify why you think it is appropriate. [2]

PART II

Answer any **SEVEN** questions

QUESTION 2

- a) Explain **FIVE** situations that lead to a positively sloped demand curve. [5]

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b) Taxes form a major source of revenue for the government. As a student of economics, which kind of taxation, direct or indirect, do you feel will benefit our country the most? Justify your answer with **FIVE** relevant reasons. [5]

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[illegible]

- b) Which market form, monopolistic or monopoly, do you think is relevant for a developing country like ours? Support your answer with **FIVE** justifications.

[5]

[illegible]

QUESTION 4

- [illegible]

[illegible]

b) Using suitable tables of your own, explain the three stages of returns to scale. [5]

[illegible]

QUESTION 5

[illegible]

b) Using a diagram, show the situation of super normal profit of a firm with product differentiation. [5]

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QUESTION 6

- a) What is Quasi rent? Explain **FOUR** basic differences between Quasi rent and economic rent.

[5]

[illegible]

b) Do you think a permanent ban on the import of goods will rectify the adverse balance of payments? Support your opinion with **FIVE** points. **[5]**

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QUESTION 7

- a) With the help of a diagram, explain the behaviour of Total cost, Total Variable cost and Total Fixed cost curves in the short run.

[5]

[illegible]

b) What would have been the status of the Bhutanese economy had the Five Year Plans been introduced since the enthronement of the first Monarch? [5]

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QUESTION 8

a) Calculate operating surplus from the following data:

[5]

Items	Amount(Nu. in million)
Rent	1500
Mixed Income	3500
Dividend	2000
Interest	3000
Indirect Tax	2600
Royalty	1200

[illegible]

b) Different countries adopt different ways of debt redemption. According to you, what **FIVE** best methods should our government adopt to redeem the debts and why? [5]

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QUESTION 9

- a) If you were entrusted with the responsibility of calculating the National Income of Bhutan, how would you do it using expenditure method?

[5]

[illegible]

b) Is economic growth of a country possible without public expenditure? Justify with **FIVE** relevant points.

[illegible]

QUESTION 10

- a) Draw a diagram of circular flow of income in a two sector model and explain the following:

[5]

- i) Leakages
- ii) Injections
- iii) Real flow
- iv) Money flow

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b) Explain **FIVE** importance of budget for the Bhutanese government. **[5]**

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