

PART I (compulsory)

Question 1.

[30 marks]

Answer briefly each of the following questions:

i) Economic goods are scarce in supply and they need to be bought by paying a price. However, non-economic goods are freely available with unlimited supply. Give **TWO** examples each for both the goods.

[2]

ii) Derive NDP_{FC} from GDP_{MP} . [2]

iii) Explain any TWO rationales for implementing Five Year Plans in Bhutan. [2]

iv) Micro economics is a study of the behavior of individual economic units such as households, firms, industries, individual consumers and producers, investors etc.

How is the study of micro economics useful in an economy?

[2]

v) Calculate the price elasticity of supply of a product when its supply increases from 400 units to 500 units as result of a rise in its price by 10%.

[2]

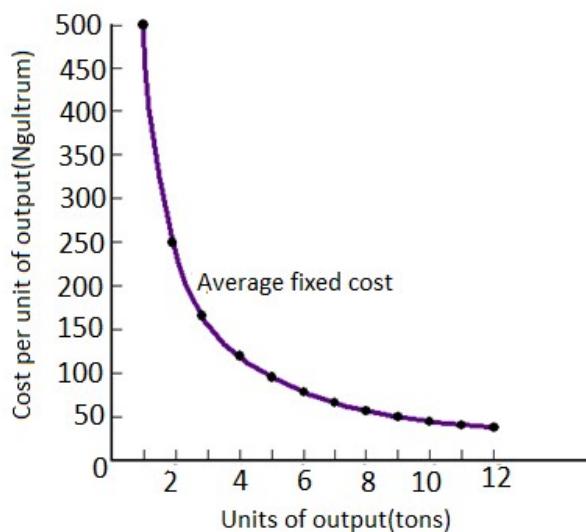
vi) Study the table given below:

[2]

Country	Cost of production(Nu)	
	Rice	Wheat
Bhutan	100	250
India	200	150

Find out in which commodity should Bhutan and India specialize to have gainful trade. Why?

vii) The graph below shows average fixed cost.



Why does average fixed cost fall continuously but never touches x-axis in the graph?

[2]

viii) The salaries, allowances and other benefits for the local government leaders have been revised recently.

a) Why has the government recommended a pay revision for them?

[1]

b) How will this incentive make local government leaders to perform their duties more efficiently?

[1]

ix) How is income tax different from customs duty in terms of incidence and impact of taxation?

[2]

x) Write **TWO** similarities between the two plan periods of (1981- 1987) and (1992- 1997). [2]

xi) Charging lower prices to new customers and offering quantity discounts to big buyers are some forms of price discrimination.

Is price discrimination a good practice adopted by a monopolist? Give **TWO** justifications. [2]

xii) Payment for imports and savings are leakages. On the other hand, income from exports and receipts from tourists are injections. Leakages and injections in the circular flow of income disturb the smooth functioning of the economy.

What would happen to the circular flow of income if leakages are more than injections? [2]

xiii) Accumulation of public debt is a national concern. Many think rising public debt might lead to debt crisis.

Should the government worry about its public debt? Why? [2]

xiv) RemitBhutan is a platform facilitated by the Royal Monetary Authority for non-resident Bhutanese to operate foreign currency accounts with any authorized banks in Bhutan. It helps Bhutanese living and working abroad to save their foreign currency earnings in Bhutan.

a) How will RemitBhutan enhance economic development in Bhutan? [1]

b) Suggest **ONE** benefit of RemitBhutan to Bhutanese living abroad.

[1]

xv) The table below shows the old and revised income tax rates.

Old Income slab	Rate	New Income slab	Rate
Up to Nu. 100,000	0	Up to Nu. 200,000	0
Nu. 100,001 – Nu. 250,000	6%	Nu. 200,001 – Nu. 250,000	10%
Nu. 250,001 – Nu. 500,000	9%	Nu. 250,001 – Nu. 500,000	15%
Nu. 500,001 – Nu. 10,00,000	12%	Nu. 500,001 – Nu. 10,00,000	20%
Nu. 10,00,000 and above	15%	Above 10,00,000	25%

a) Explain how the revised tax rate has benefitted the tax payers?

[1]

b) How will this affect the government's revenue?

[1]

PART II

Answer any **SEVEN** questions

Question 2.

a) Prove the following: [4]

- i) $VMP = MRP$ under perfect competition market.
- ii) $VMP > MRP$ under imperfect competition market.

b) International trade makes each country to enjoy a wider range of commodities which otherwise is not possible. However, it also leads to exhaustion of natural resources thereby putting the future generation at risk.

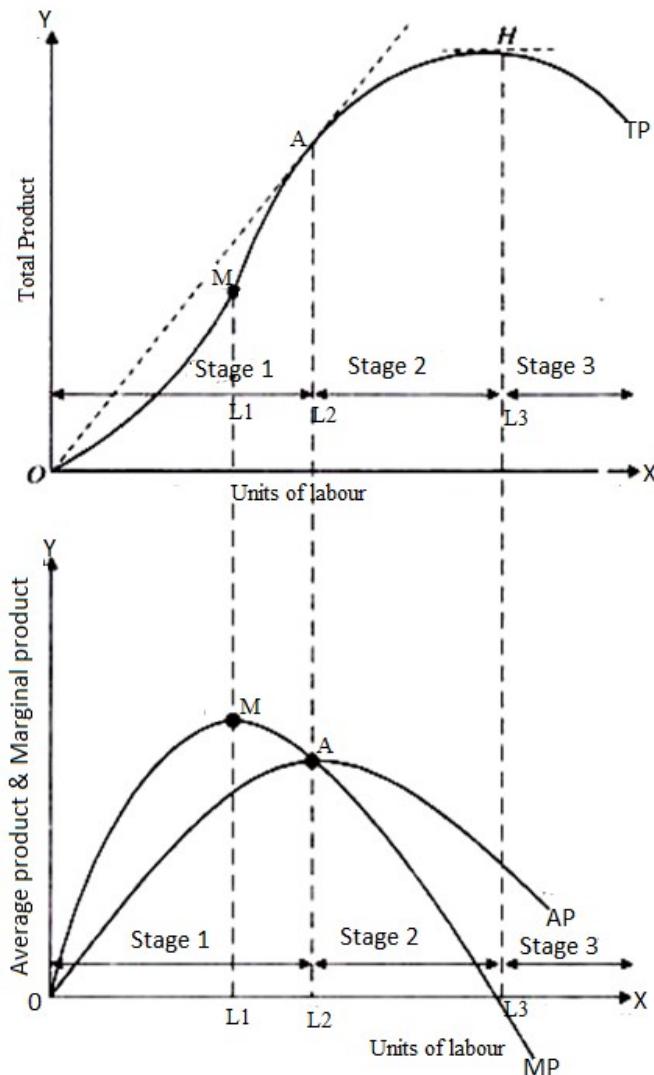
i) What are **THREE** benefits Bhutan gets from international trade?

[3]

ii) What according to you are **THREE** limitations Bhutan suffers due to International trade? [3]

Question 3

a) Use the following diagram to answer the questions that follow.



i) Explain the behaviour of Total product, Average product and Marginal product of a firm in the short run.

[3]

ii) Which among the three stages of production, a rational producer would prefer to operate and produce? Why?

[2]

b) Ensuring good governance, promotion of socio-economic development, preservation and promotion of culture, protection of environment are the four pillars of GNH.

Which pillar do you think is the most important to promote GNH?

Justify with **FIVE** reasons.

[5]

Question 4

a) Development planning in Bhutan has completed 56 years since its inception in 1961. The country has seen a great socio-economic development in different sectors over the years.

Provide **FIVE** examples of recent development in education sector.

[5]

b) Why does the government resort to deficit financing? Explain any **TWO** positive impacts and **TWO** negative impacts of deficit financing.

[5]

Question 5

a)

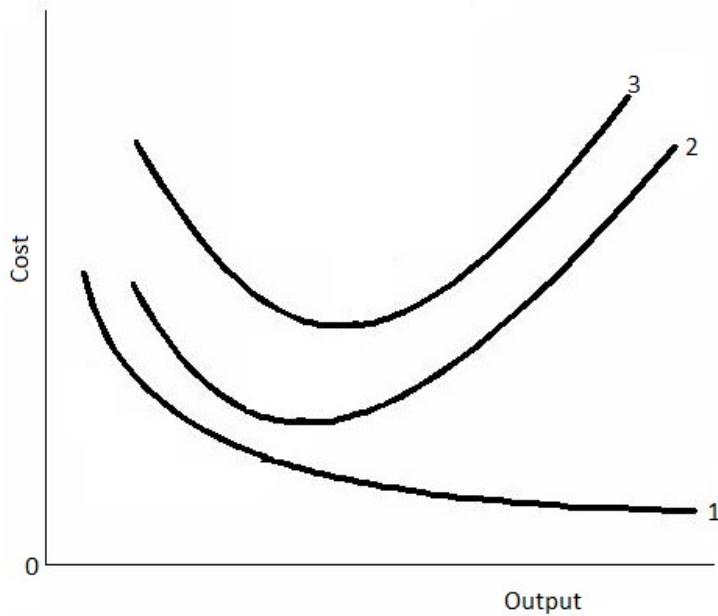
Country	Production in units	
	Apple	Orange
Bhutan	10	6
India	4	2

In the table above, Bhutan is able to produce more of both the commodities as compared to India.

Should Bhutan still need to trade with India? Justify.

[5]

b)



i) What are 1, 2 and 3 in the above graph? [3]

ii) The two curves 2 and 3 lie very close to each other. Will they meet? Why? [2]

Question 6.

- a) Goods and Service Tax(GST), 2017, is a new tax regime implemented in India to boost its exports and limit its import.

i) Will GST have any implications on the Bhutanese economy?

[3]

- ii) With the implementation of GST in India, Bhutanese products will lose its competitive edge in the Indian market.

What can be done so that the revenue generation through exports is not significantly affected?

[2]

b) The total budget outlay of the 1st Five Year Plan (1961-1966) was Nu. 174.7million. However, the budget outlay increased to Nu. 213 billion during the 11th Five Year Plan.

Why do you think the government expenditure been escalating over the years in Bhutan? Explain **FIVE** reasons.

[5]

Question 7

a) What is profit? Explain the conditions required for profit maximization.

[5]

b) The table below shows the hypothetical budget summary for the financial year 2016-2017 in Bhutan.

Source of finance	Estimates (Nu. in million)
Total Expenditure	51,884.364
Current expenditure	25,387.034
Capital expenditure	26,497.330
Total revenue	41,605.862
Domestic revenue	27,247.169
Grants	14,338.693
Other receipts	20.000
Resource gap	(-10,278.502)

i) What is a resource gap? [1]

ii) How does the government fill up the resource gap?

[2]

iii) Developmental activities are partially financed by domestic revenue.
What might have contributed to a rise in the domestic revenue?

[2]

Question 8

a) Use the following data to calculate the compensation for employees.

[5]

Particulars	Amount(Nu in lakhs)
Wages & salaries	210
Bonus	40
Rent free accommodation	75
Dearness allowance	10
Employee's contribution to provident fund	35

b) How are the objectives of Sixth Five Year Plan different from that of the Ninth Five Year Plan? Give **FIVE** differences.

[5]

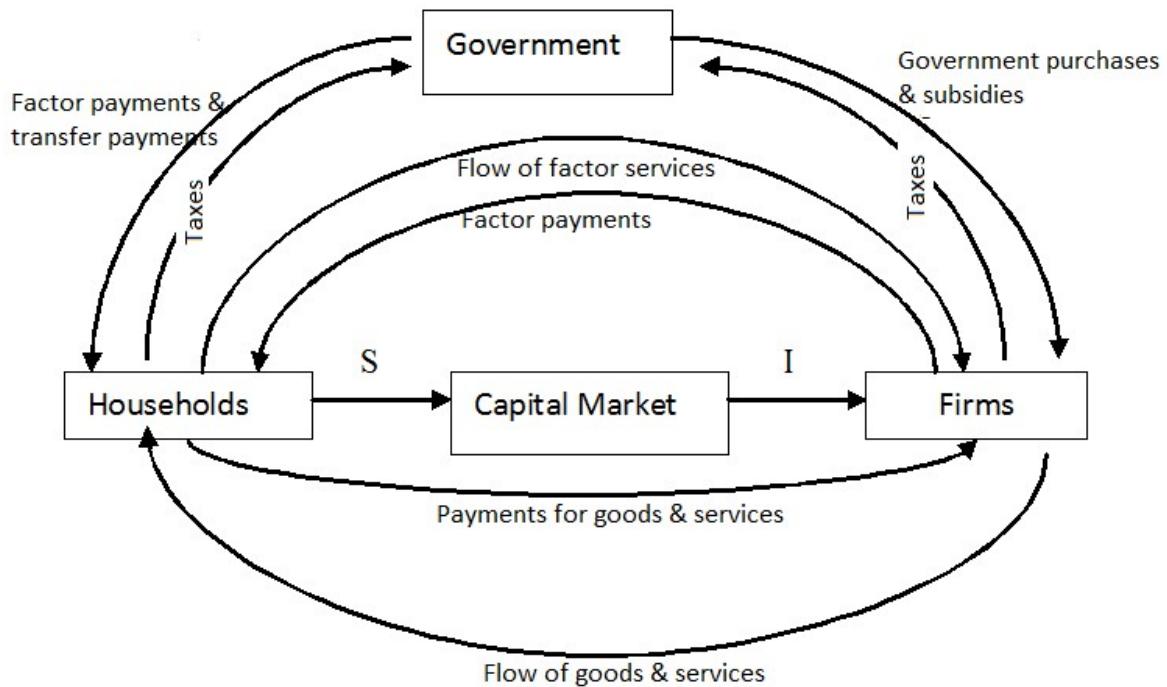
Question 9.

- a) The fiscal policy in developing countries have different objective as compared to the advanced countries.

Explain **FIVE** objectives of fiscal policy in Bhutan.

[5]

b) Following diagram shows a circular flow of income in three sector model.



Foreign sector plays an important role in the economic transactions of a country.

Draw and explain the role of foreign sector by reflecting injection and leakages in the above diagram.

[5]

Question 10.

a) Use the following table to answer the questions that follow:

Price per pen(Nu)	Qty demand per week	Qty supplied per week
10	250	50
15	200	100
20	150	150
25	100	200
30	50	250

i) Determine the equilibrium price and quantity with the help of a diagram.

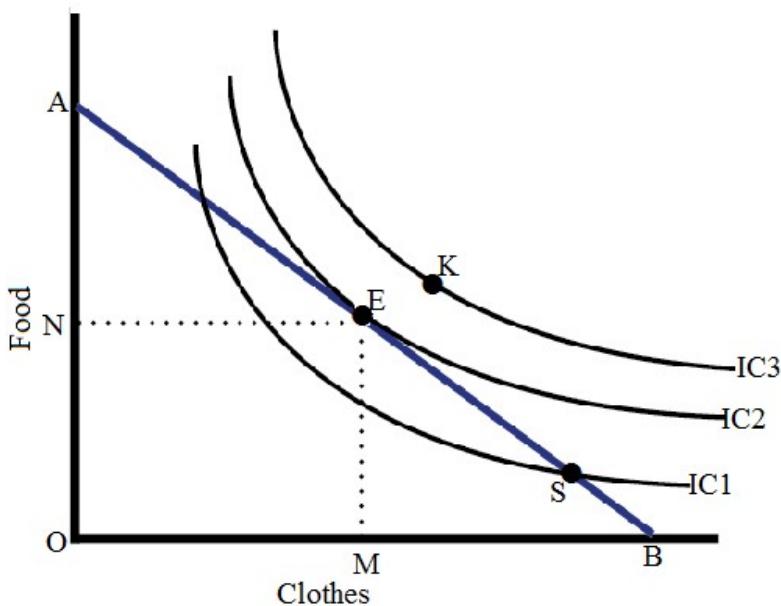
[3]

ii) What is the excess demand at the price of Nu.10 and excess supply at the price of Nu. 25?

[2]



b) Use the following indifference map to answer the questions that follow.



i) Which is the best combination of commodities for the consumer? Why?

[1.5]

ii) Why is preference 'E' better than 'S'?

[2]

iii) Is it possible for the consumer to enjoy the preference 'K'? Why?

[1.5]

