

PART I (Compulsory)

Question 1

[30 marks]

Answer briefly each of the following questions:

i) Returns to a factor and returns to a scale are two important laws of production.
Though both explain the relation between inputs and output yet they are different.

State the difference between returns to a factor and returns to a scale.

[2]

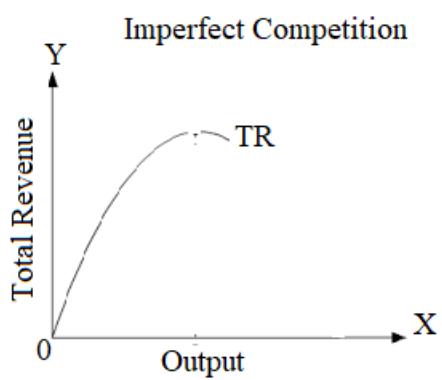
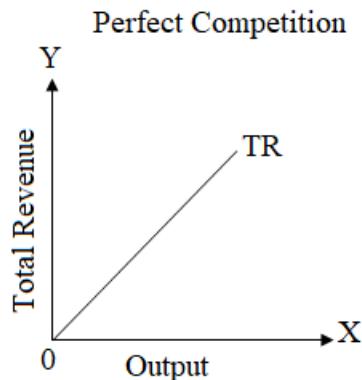
ii) Study the table below and answer the question that follows.

Goods	Type of elasticity	Value of elasticity
Car	Elastic	$ed > 1$
Gas	Inelastic	$ed < 1$ or -ve

Which good would you prefer to buy as your purchasing power increases? Why?

[2]

iii) Study the graphs given below.



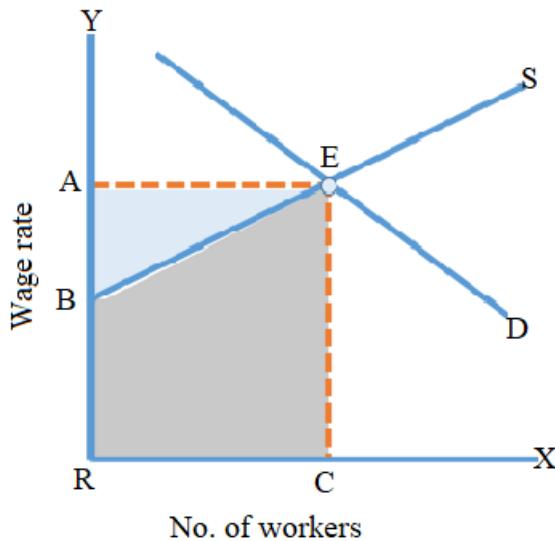
TR curve under imperfect competition is inverted U-shaped while it is positively sloped under perfect competition. Why are they different? Give **TWO** reasons.

[2]

iv) With rise in wage rate, a worker will be motivated to work for longer hours and earn more income. However, beyond a certain point, the worker would substitute leisure in place of work. Why?

[2]

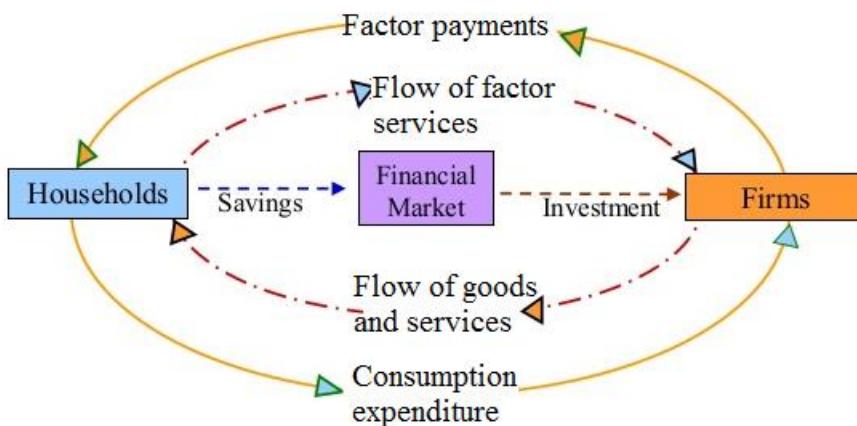
v) Study the graph given below.



If RBEC is a transfer earning, explain what is ABE?

[2]

vi) The diagram below shows the circular flow of income in equilibrium.



What would happen to the equilibrium if savings is lesser than the investment?

[2]

For more information, contact the Office of the Vice President for Research and Economic Development at 515-294-6450 or research@iastate.edu.

vii) Calculate GNPmp from the information provided below.

[2]

Sl.no.	Particulars	Nu in millions
1	Net Domestic Product at market price (NDPmp)	2570
2	Consumption of fixed capital	10
3	Net indirect taxes	100
4	Net factor income from abroad	500

viii) Some of the benefits Bhutan might get from the free trade policy are lower prices of the goods, increased exports, greater choices of goods and increased competition.

Do you think the free trade policy will promote GNH values in Bhutan? Why?

Give **TWO** justifications.

[2]

ix)

Commodity	Output per day of labour	
	Bhutan	Japan
Textiles	70	30
Mobiles	4	9

Use the above information to explain the concept of absolute advantage between the two countries.

[2]

x) Tariff is one of the trade restrictions imposed by the government on the flow of international goods and services into the country.

How is Bhutan benefitted by imposing such trade restrictions?

[2]

xi) The table below shows the tax revenue for the government during the fiscal year 2015-2016 and 2016-2017.

Source of revenue	2015-2016 (Nu in million)	2016-2017 (Nu in million)
Personal Income Tax(PIT)	1770.362	957.313
Business Income Tax(BIT)	1175.298	1276.903
Corporate Income Tax(CIT)	7459.579	8170.299

National Revenue Report, 2017, DRC.

a) Why was there a decline in the revenue generated through PIT during the fiscal year 2016-2017?

[1]

b) Identify **TWO** companies which would have contributed the maximum revenue under CIT.

[1]

xii) The following table shows a hypothetical outlay of total expenditure for 2017-2018.

Particulars	Amount(Nu in million)
Blacktopping 180 km of roads to gewog centers	4174.083
Re-construction of Wangduephodrang Dzong	9733
Establishment of Nikachhu hydro power project	7583
Maintenance of 120 monasteries	6621
Construction of 300 km of farm roads	6253
Re-surfacing of 200 km of roads	3656.083
Total	38,020.166

Find out the percentage of capital expenditure against the current expenditure.

[2]

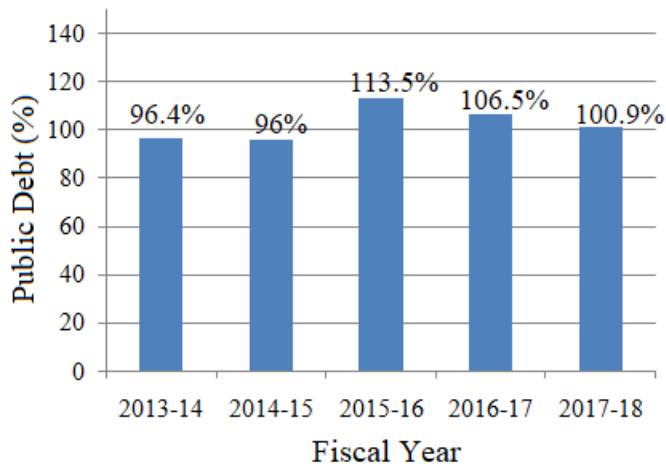
xiii) Bhutan to graduate from the Least Developed Country (LDC) list to a developing nation by 2021. It will lose external grants and aids received for the economic development from its multilateral development partners.

Kuensel, March 19, 2018.

What is the significance of its transition on the Bhutanese economy?

[2]

xiv) The graph below shows the trend of public debt in Bhutan over the years.



Macroeconomic performance & outlook, MoF

The rising public debt has become a major development challenge for the government.

Suggest **TWO** measures to manage the public debt in Bhutan.

[2]

xv) The government has provided around quarter-billion ngultrum to carry out the second national Population and Housing Census of Bhutan (PHCB), 2017. The government felt that PHCB 2017 was timely to assess the 11th FYP achievements and its sustainable development goals.

BBS, May 30, 2017.

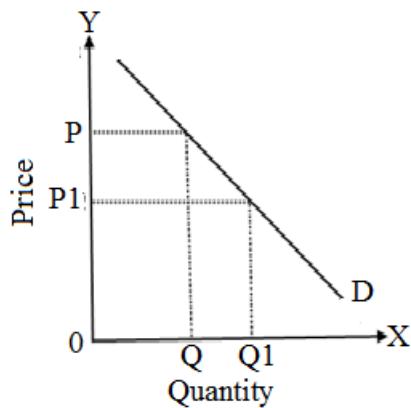
In what ways would the government be benefitted by the statistical data collected through the PHCB 2017? Write **TWO** points.

[2]

PART II
Answer any **SEVEN** questions

Question 2

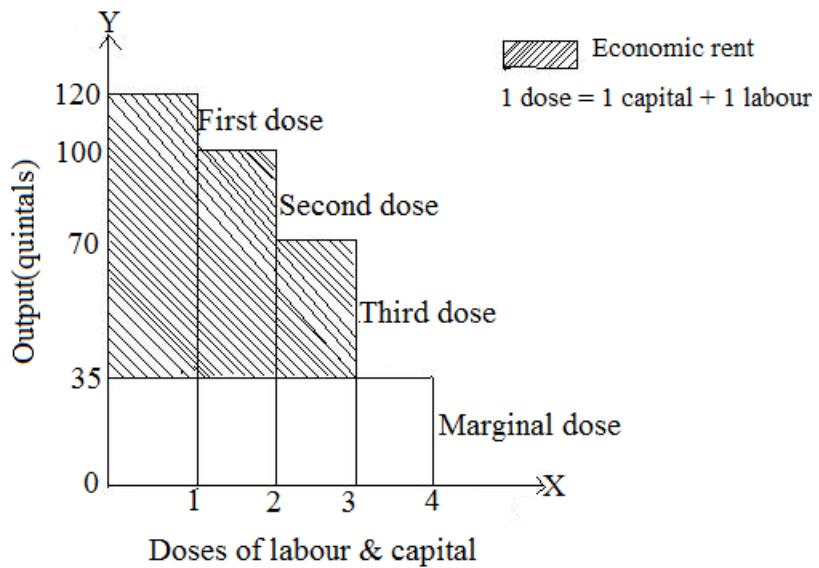
a) The following is a normal demand curve sloping from left to right.



With the help of a diagram, explain three situations where demand curve will slope upward.

[5]

b) The diagram below shows intensive cultivation of land under Classical Theory of Rent.



Interpret the above diagram using the concept of Law of Diminishing Returns.

[5]

Question 3

a) According to Aum Zam, 2018 was not a good year as she could sell only 25 bags of potatoes @ Nu 17. However, around the same time last year she sold about 50 bags of potatoes @ Nu 20.

i) Explain the above information using a diagram.

[3]

ii) What are the **TWO** likely factors that might have led to the fall in the price of potatoes? [2]

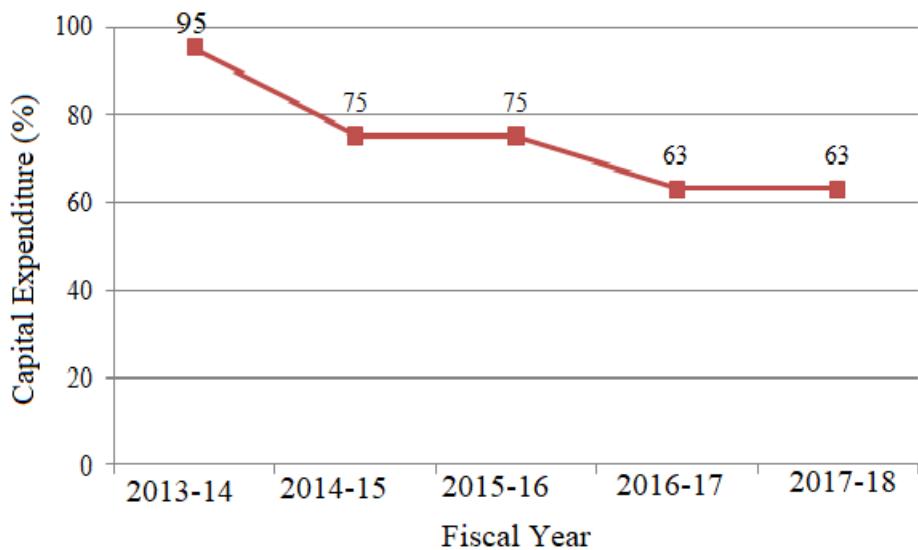
b) From the information given below, find out the operating surplus:

[5]

Particulars	Nu(lakhs)
Rent	150
Interest	625
Royalty	375
Dividends	85
Mixed income	225
Corporate tax	75
Undistributed profit after tax	80

Question 4

a) The graph shows the percentage of capital expenditure being met by the grants and loans received from the development partners.



Macroeconomic performance & outlook, MoF

i) The percentage of external grants and aids Bhutan receives from its multilateral development partners has been declining over the years. Why?

[2]

For more information, contact the Office of the Vice President for Research and Economic Development at 319-273-2500 or research@uiowa.edu.

ii) Bhutan's recurrent expenditure is fully covered by its domestic revenue.

National Revenue Report, 2016-2017

Will it be possible to meet its total expenditure by domestic revenue in future?

Justify with **THREE** reasons.

[3]

b) Explain graphically how the following would affect the equilibrium price and quantity:

i) Favourable change in the consumers' taste for the products.

[2.5]

ii) A reduction in the consumers' income.

[2.5]

Question 5

- a) Globalization promotes cross-border movement of information, ideas, technology, people and investments. It can also transfer some of the economic disadvantages such as global economic depression and financial crisis.

How was the Bhutanese economy affected by the global economic crisis of 2008?

[5]

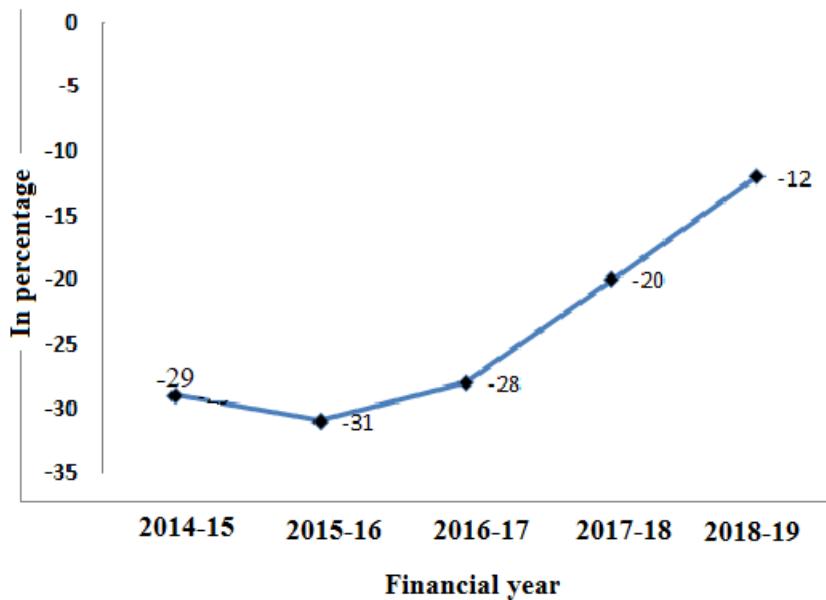
b) Budgeting helps a government to prioritise its spending and manage its money. It helps to identify wasteful expenditure and achieve the fiscal goals.

Explain the steps involved in the preparation of budget.

[5]

Question 6

a) The graph shows the trends in the balance of payment in Bhutan.



i) The deficit in the balance of payment is projected to be bad during the financial year 2015-2016 as compared to the other years. What could be the reason for it?
Mention any **TWO** reasons.

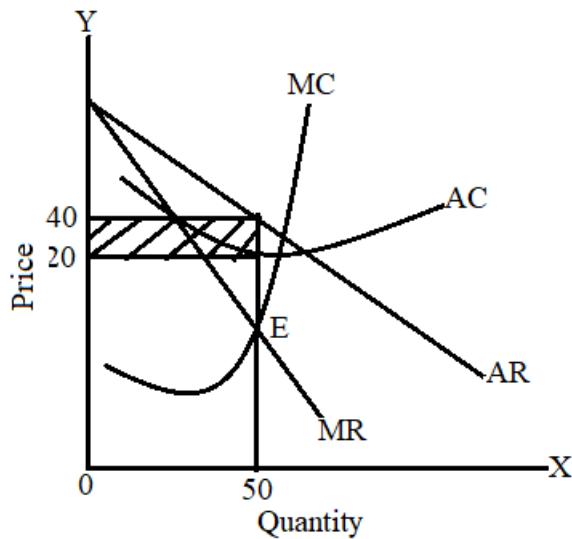
[2]

ii) The trend shows improvement in the position of balance of payment. What are **THREE** factors that would have contributed to the improvement of the balance of payment? [3]

b) Draw and explain circular flow of income of a country which does not have trade link with other countries. [5]

Question 7

a) Study the following diagram.



i) Name the type of market under which the above firm operates.

[1]

ii) What is the firm's total profit earned or losses incurred?

[3]

iii) The firm would be able to earn abnormal profits even in the long run. Why? [1]

b) National income is the value of all the final goods and services produced in a country during a particular period of time. It can be estimated using different methods.

Explain how national income is measured using the income method.

[5]

Question 8

- a) Government covers the deficit finance either by using the accumulated reserves or through the borrowing from the central bank.

Is deficit financing bad for an economy? Why?

[5]

b)

Output (Unit)	0	1	2	3	4
Total Cost (Nu)	50	70	90	100	110

From the above cost function of a firm, find out

[5]

- i) Total fixed cost
- ii) Total variable cost
- iii) Average variable cost
- iv) Marginal cost
- v) Average fixed cost

Question 9

a) Taxes are compulsory payments made to the government without any corresponding return of services or goods to the tax-payers. Which type of taxes do you think would benefit the economically disadvantaged people? Justify with **FIVE** points.

[5]

b) "Ministry of Education has a plan to provide one laptop for every teacher during 12th Five Year Plan."

Source: Kuensel, January 4, 2018

Will implementation of the above plan enhance the quality of teaching and learning process in the schools? Why?

[5]

Question 10

a) Promotion of private sector was one of the priority areas since 7th Five Year Plan. Despite the importance accorded to it, private sector growth remains sluggish.

i) In your opinion, what measures could be taken to strengthen private sector development?

[3]

ii) Though Bhutan has many obstacles for private sector development, she also has key positive factors that give her a regional comparative advantage.

Bhutan Economic update, April, 2010

Identify these key factors?

[2]

b) The public goods such as basic health, education, street lightning and police services are all provided free for the benefit of every Bhutanese. However, free goods and services are valued less by most of the people.

As a responsible Bhutanese, how can you ensure that the expenditure of the government is not wasted?

[3]

- c) Thimphu has been declared as the second SAARC Cultural Capital City for 2018. She will host a series of cultural programmes where SAARC member countries can showcase their unique cultures.

Source: *Kuensel*, June 1, 2018

Preservation and promotion of culture is one of the pillars of GNH in Bhutan.

How will such an initiative help Bhutanese realize the importance of our unique culture?

[2]

