

PART I (30 MARKS)

ANSWER ALL QUESTIONS

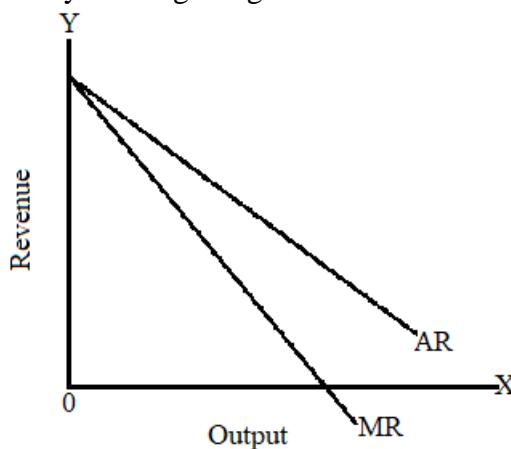
Question 1

Answer briefly each of the following questions:

a) Gross domestic product, total unemployment and inflation of a country are few examples of macro-economic variables. [2]

List **TWO** examples of micro economic variables.

b) Study the diagram given below. [2]



AR curve slopes downward continuously but never becomes negative. Why?

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c) Rice is an example of both intermediate as well as final product. Explain. [2]

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d) Kinga construction limited took up construction of a government school in the [2]
Fiscal Year 2018-2019. Due to escalation in the prices of construction materials,
the construction work could not be completed on time.

Briefly describe the kind of supplementary budget she would need to propose.

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e) The table shows varying quantity of apples bought by Dechen at various prices. [2]

| Price(Nu.)per kilogram | Quantity bought(kg) |
|------------------------|---------------------|
| 300 | 10 |
| 400 | 8 |

Is Dechen's demand for apples elastic or inelastic?

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f) Wearing of national dress is one of the ways to promote and preserve our culture. [2]

What other measures can the government take to promote and preserve our culture?

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g) Deficit in the balance of payment can be corrected by encouraging exports and discouraging imports. [2]
How can you do this? Mention **TWO** ways to achieve this task.

h) If the Ministry of Finance increases the sales tax from 40% to 50%, how would this affect the price and consumption of goods and services? [2]

i) Why do you think self-reliance and sustainability were accorded priority both in the 7th and 8th FYP? [2]

j) [2]

| Type of market | Profit | Period |
|---------------------|----------|----------|
| Monopoly | Abnormal | Long run |
| Perfect competition | Normal | |

Though firms in both the markets are operating in the same time period, yet they earn different profits. Why?

k) A firm has both fixed and variable factors in the short run. It cannot make any adjustments to the amount of fixed factors used in its production unit.
What variable factors can be changed so as to maximize output during such period? [2]

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l) What must be added to [1]
i. NNP to get GNP?

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ii. NDP to get NNP? [1]

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m) International trade facilitates not only flow of goods and services but also ideas and information. However, for the developing countries, there is a risk of exploitation by multinational companies. [2]
Do you think that international trade is good for Bhutan? Justify giving **TWO** points.

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n) Both central and local governments will focus on *coordination, consolidation* and *collaboration* in all its plans and programs during the 12 FYP. [2]
Will the three ‘Cs’ ensure the achievement of the common goal of long term peace, prosperity and happiness for Bhutan?

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o) Growing inequalities is one of the challenges faced by Bhutan despite its significant socio-economic development over the years. To address this issue, the RGoB is prioritizing its spending on rural areas, low income groups and private sectors. Suggest a new fiscal policy measure to reduce income inequalities in Bhutan. [2]

PART II (70 MARKS)
ANSWER ANY SEVEN QUESTIONS

Question 2

a) Economists categorize the supply depending on how it responds to price in terms of time element.

i. What is market period? [2]

ii. With the help of a diagram, explain to what extent the supply of a commodity can be adjusted in the short-run and long run? [3]

b) Bhutan's public debt as of September 30, 2018 is estimated at Nu. 182 billion. The external debt forms Nu. 175 billion and domestic debt constitutes Nu. 7 billion.

[5]

Source: Kuensel, January 14, 2019

Would increasing national debt be a major challenge for Bhutanese economic development? Why?

Question 3

a) The supply of a factor remains fixed and cannot be transferred to another use in some exceptional cases. In other words, the supply of a factor is perfectly inelastic.

With the help of a diagram, explain how the economic rent is equal to actual earning when supply of a factor is perfectly inelastic.

[4]

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b) Study the table given below.

| Production(in kgs) | Bhutan | India |
|--------------------|--------|-------|
| Orange | 30 | 10 |
| Potato | 40 | 8 |

i. Bhutan has an advantage in the production of both the commodities.

Does the country still need to trade with India?

[4]

ii. The theory of comparative cost advantage paves way towards specialization. [2]
Will specialization benefit the trading countries? Why? Give reasons.

Question 4

a) Fiscal Policy is an important instrument of economic policy to achieve macro-economic stability. [2]

i. Mention **TWO** fiscal measures to decrease unemployment problem in Bhutan.

ii. “The economic development policy encompasses major economic reforms including the restructuring of the macroeconomic base which will include the five jewels, namely hydropower, agriculture, cottage and small industries, tourism and mining.” [3]

Source: Economic Development Policy, RGoB, December 2016

Suggest **THREE** fiscal strategies to promote the growth of the five jewels.

b) With increase in the income of the consumers, the quantity demanded of commodity X increases. At the same time, producers respond to increase in demand by increasing the supply of the commodity X. But the quantity demanded increases by a larger proportion than supply.

Use the demand and supply model to show the effect of simultaneous shifts in demand and supply on the equilibrium price and quantity.

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Question 5

a) Distinguish between new budget and additional budget.

[2]

| New budget | Additional budget | |
|------------|-------------------|--|
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b) Dechen earned the following income from different sources.

[4]

| Source of Income | Amount(Nu. in thousand) |
|---------------------------------|-------------------------|
| Interest on government bonds | 450 |
| Dividends | 60 |
| Undistributed profit before tax | 150 |
| Net rent | 70 |
| Subsidies | 30 |
| Royalties | 20 |
| Interest on life insurance | 25 |
| Mixed income | 50 |

Calculate her income from ownership and control of capital.

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c) Taxation policy is one of the tools to protect and promote domestic industries. The Royal Government of Bhutan has been providing tax holidays and exemptions to promote and protect domestic products. However, Bhutanese market today is flooded with imported goods. [4]

How can the existing taxation system promote domestic products and explain why it is appropriate?

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Question 6

a) National mass media such as Bhutan Broadcasting Service, Kuensel and Bhutan Today are a few examples of firms operating under oligopoly market structure in Bhutan. [3]

i. Explain any **THREE** features of oligopoly market.

ii. Sellers under oligopoly and monopolistic market incur selling costs to promote their sales. [3]
Suggest **THREE** strategies to promote sales in such markets.

b) Study the information given in the table below. [4]

| Trade(Nu. in millions) | 2017 | 2016 | 2015 |
|-------------------------------|-------------|-------------|-------------|
| Exports | 37,297 | 35,258 | 35,229 |
| Imports | 66,996 | 67,360 | 68,037 |
| Balance | (-29,699) | (-32,102) | (-32,808) |

Source: Bhutan Trade Statistics, 2017

Bhutan has been experiencing trade deficit for the last three years contributing to deficit in the balance of payment.

What are the causes of deficit in the country's balance of payment?

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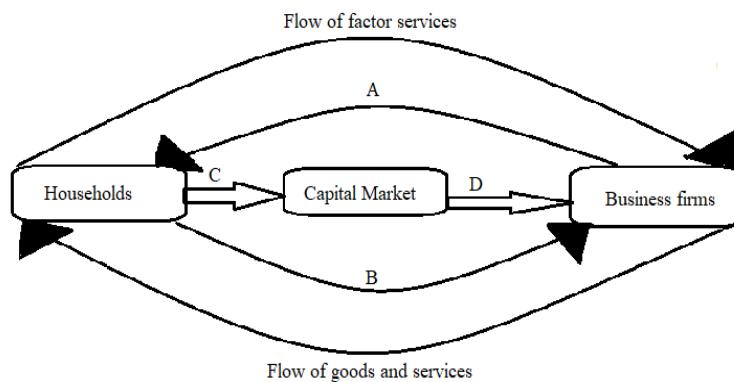
Question 7

a) Agriculture sector has been prioritized since the Second Five Year Plan in Bhutan. Mention **FIVE** major achievements of the Five Year Plans in the field of agriculture till date.

[5]

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b) The figure given below shows the circular flow of income in an economy with two sectors.



i. What are A, B, C and D?

[2]

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ii. What would be the effect on the circular flow of income in an economy if

[1]

- 1) Le leakages > Injection.

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2) $\text{Leakages} < \text{Injection}$.

[1]

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3) $\text{Leakages} = \text{Injection}$.

[1]

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Question 8

a) As the firms increase their scale of production in the long run, initially they experience certain advantages till the optimum level of output is reached where the per unit cost of production is minimum.

[5]

Give the examples of **FIVE** such advantages enjoyed by a firm expanding its scale of production.

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b) The resource gap for the financial year 2017-2018 is estimated at Nu. 4795.610 million. For financing the estimated resource gap, the government will resort to domestic borrowings.

Source: National Budget Report, 2017-2018, MoF

i. Propose **THREE** methods to help in meeting the resource gap.

[3]

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ii. 'Deficit financing helps to finance development plans of underdeveloped countries and also accelerate their rate of economic development'. Do you agree? Support your opinion with **TWO** points. [2]

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Question 9

a) Define the following:
i. Articles of snob appeal

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ii. Inferior goods

[1]

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iii. Complementary goods

[1]

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b) During the 11th Five Year Plan, the income poverty has been reduced from 12% in 2012 to less than 5% in 2018.

i. What were some of the measures taken by the government to achieve this objective? [2]
Mention **TWO** initiatives.

ii. One of the objectives of the 9th FYP was generation of full employment. [3]
However, this objective is not yet realized.
Do you think the government would be able to absorb all unemployed youth during the 12th FYP?

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c) Study the table given below.

[2]

| No. of workers | Total Product | Average product | Marginal Product | Stages |
|----------------|---------------|-----------------|------------------|-----------|
| 1 | 10 | 10 | 10 | Stage I |
| 2 | 24 | 12 | 14 | |
| 3 | 45 | 15 | 21 | |
| 4 | 56 | 14 | 11 | Stage II |
| 5 | 60 | 12 | 4 | |
| 6 | 60 | 10 | 0 | Stage III |
| 7 | 56 | 8 | -4 | |

Differentiate the behavior of Total Product and Marginal Product in stages I and III.

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Question 10

a) With the rise in population, the role of the government has been growing in terms of providing the basic facilities and public services. This has led to an increase in the public expenditure in recent times.

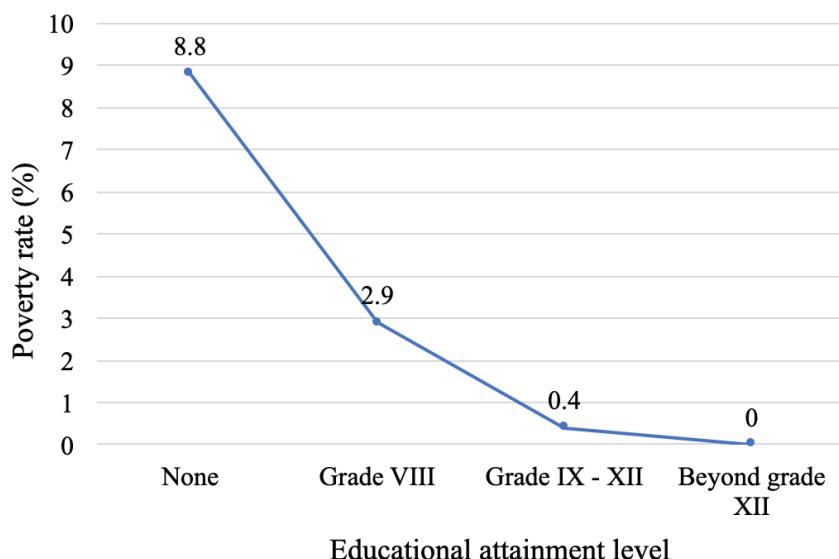
How does public expenditure influence economic development of the country?

[2]

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b) The graph shows variation in the poverty rate depending on the level of education attained by the head of the household.

[2]



As per the Population and Housing Census of Bhutan 2017, around 427,961 of the total Bhutanese population of 681,720 is educated.

What can you suggest so that the remaining Bhutanese are also educated and become self sufficient?

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c) To provide youth with a better understanding of the GNH concept, Gross National Happiness Commission of Bhutan (GNHCB) conducted a month-long GNH advocacy programme in schools, colleges and institutions in the country. [2]

Source: *Kuenselonline*, August 9, 2018

Moreover, GNH values and principles are infused in the classroom teaching and learning. Why is promoting GNH values among the Bhutanese youth important?

d) Developmental activities of any kind are guided by the philosophy of GNH in Bhutan. It ensures that development takes place without compromising the pristine natural environment and unique culture, while emphasizing the system of good governance.

What would be some of the possible drawbacks if GNH is not emphasized as the development philosophy of the country?

[4]