

PART I (30 MARKS)
ANSWER ALL QUESTIONS

Question 1

Answer briefly each of the following questions:

a) 'The law of supply explains the relationship between price and quantity supplied of a commodity'.

State the law of supply.

[2]

b) The table below shows some of the taxes imposed in Bhutan.

- i) Green Tax
- ii) Business Income Tax
- iii) Corporate Income Tax
- iv) Excise Duty.

Classify the taxes into direct and indirect tax.

[2]

Direct tax	Indirect tax

c) The table shows one of the stages of returns to scale.

Inputs (Units)	Output (Units)
1 Capital + 1 Labour	50
2 Capital + 2 Labour	80

Identify the stage and explain.

[2]

d) The outbreak of COVID-19 pandemic has disturbed the political, social, economic and financial structures of the world.

Discuss any **TWO** impacts of COVID-19 pandemic on budget allocation in Bhutan.

[2]

e) Complete the following table:

[2]

Price (Nu)	Output (units)	TR	MR
10	1	10	10
8	2	—	—
6	3	18	2
4	4	—	—

f) ‘Community Vitality, one of the nine domains of GNH is the ability of a community to sustain as well as provide opportunities for its residents to pursue their own life goals and to create positive life outcomes. More specifically, a vital community has community capacity to realize positive social, economic, and environmental outcomes.’

Formulate **TWO** ways to strengthen the above domain in your community.

[2]

g) Study the table given below showing the quantity of rice and maize produced in Bhutan and India.

Output (in kg)	Bhutan	India
Rice	20,000	80,000
Maize	40,000	60,000

Calculate the changes in output for Bhutan and India with specialization, considering comparative cost theory as the basis of trade.

[2]

h) The price elasticity of demand for lemons is 0.8. If the price of lemons changes by 10%, what will be the percentage change in the quantity demanded for it?

[2]

i) Suppose the demand and supply of apples increases by 50 units each. What would be its effect on the equilibrium price and quantity of apples?

[2]

j) Bhutan imports around 80% of perishable and durable goods from other countries. With the outbreak of COVID-19 pandemic, international businesses have come to a halt due to the closure of border gates.

Write **ONE** positive and **ONE** negative impact of this on balance of payment.

[2]

k) Deficit financing can be used as a technique of meeting the financial needs of the government under different situations.

Identify any **TWO** methods of deficit financing adopted in Bhutan.

[2]

1) Give reasons for the following:

i. Why do producers agree to restrict the supply of a commodity in the market?

[1]

ii. Why is a four sector model of the circular flow of income known as an open economy model?

[1]

m) 'In the Tax (Amendment) Bill of Bhutan, 2020, several amendments were made. Personal Income tax exemption ceiling has been increased to Nu. 300,000 and Corporate Income tax cut for private companies from 30% to 25%.'

(Source: bbs.bt, January 31, 2020)

Do you think these tax reforms will benefit the Bhutanese economy? Support your answer with **TWO** reasons.

[2]

n) Bhutan shares its border with two giant economies of the world, China in the north and India in the south. However, due to huge mountain terrains in the north, Bhutan prefers to trade with India.

Will it be possible for Bhutan to enhance its trade with China in future? Give **TWO** reasons.

[2]

o) ‘Due to uncertainties, the revenue performance in the FY 2020-2021 is estimated to drop by 14 percent compared to the FY 2019-2020. The total expenditure is estimated to be Nu. 69,151.122 million and total revenue is estimated to be Nu. 53,822.073 million with deficit of Nu. 15,329.049 million.’

(Source: National Budget Report, 2020-2021, MoF, RGoB.)

Owing to the huge resource gap, some expenditure of unnecessary nature can be reduced. What are the possible areas where the government can cut down its public expenditure? Why?

[2]

PART II: (70 MARKS)

Question 2

a) Define the following:
i. Explicit cost

[1]

ii. Implicit cost

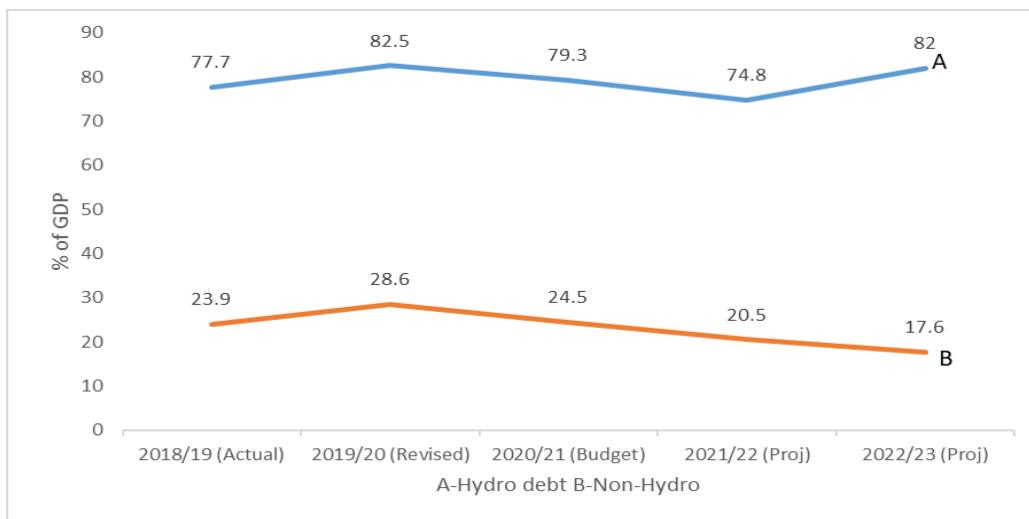
[1]

b) A fruit processing unit employs 5 machines and 3 workers.

What would happen to the total product and marginal product of the firm if it increases the number of workers? Show with the help of TP and MP curve.

[4]

c) The following graph represents the external debt trend.



(Source: National Budget Report, 2020-21, MoF, RGoB)

As shown in the graph, the total external debt to GDP ratio is projected to reduce in FY 2020-21 and 2021-22.

What would be the effect on the Bhutanese economy if public debt decreases as projected? State and explain **FOUR** impacts.

[4]

Question 3

a) The concept of elasticity of demand can be applied and used in many aspects of our lives.

Explain **FIVE** importance of the elasticity of demand in daily life.

[5]

b) Bhutan considers GNH as a better measure of economic development as compared to GDP.

Would you recommend GNH as a development philosophy to the rest of the world? Justify your answer with **FIVE** reasons.

[5]

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Question 4

a) Study the table and answer the questions which follow.

Output	TFC	TVC	TC	AFC	AVC	ATC
0	40		40	-	-	-
1	40	40	80	40	40	80
2	40	70	110	20	35	55
3	40	86	126	13.3	28.7	42
4	40	88	128	10	22	32
5	40	95	135	8	19	27
6	40	140	180	6.6	23.3	30

i. Derive AFC, AVC and ATC curves.

[3]

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ii. Explain the behaviours of TFC, TVC and TC.

[3]

b) Why is the balance of Payment (BoP) of developing countries mostly unfavorable? Explain any **FOUR** reasons.

[4]

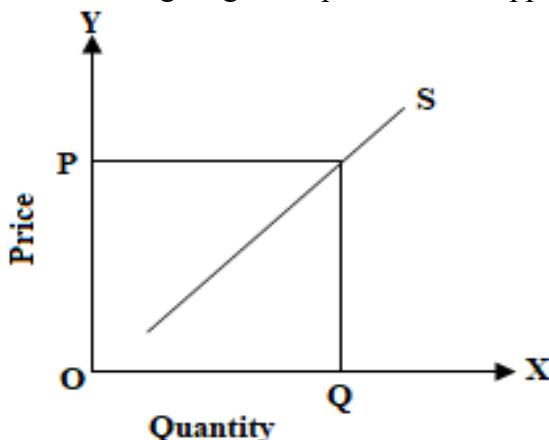
Question 5

a) Fiscal Policy is defined as the policy under which the government uses different instruments to achieve various objectives of economic policy.

State and explain the **THREE** instruments of Fiscal Policy.

[3]

b) The following diagram represents the supply curve of maize.



Show the effect of the following on the supply curve if the:

i. price of maize increases.

[1]

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ii. cost of hiring workers increases.

[1]

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iii. sellers expect the price of maize to fall in future.

[1]

c) The government prepares the annual budget based on the estimated revenue and proposed expenditure for the financial year. However, during the course of the financial year, the government often finds the need to spend more money than projected in the original budget.

If such supplementary budgets are released without proper plans and approvals, what consequences will it have on the economy?

[4]

Question 6

a) Explain the role of deficit financing in accelerating the rate of economic development. [5]

b) ‘Higher rate of investment in agriculture sector is essential to raise its productivity and to achieve optimum level of production.’

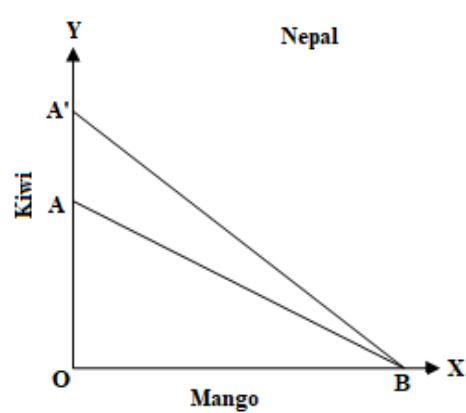
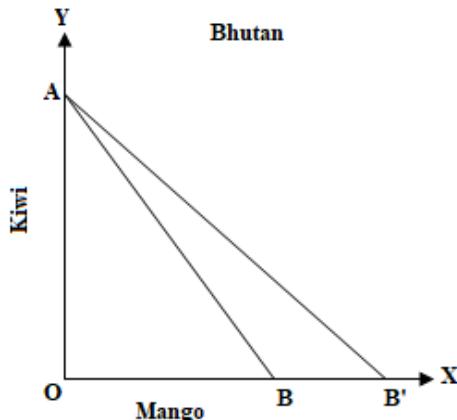
(Source: Kuenselonline.com, June 13, 2020)

What are **FIVE** factors that would influence and increase the production and supply of agricultural products?

[5]

Question 7

a) The diagrams below represent the comparative cost advantage for two countries.



i. In which commodity would the two countries go for specialization? [1]

Bhutan:

Nepal:

ii. How is the gain from trade shown in the above diagram? [1]

iii. Give a benefit of trade between the two countries. [1]

b) Indirect taxes are not directly levied on the income of an individual but rather on the expenses that they incur.

Indirect taxes have an advantage to both the government and the tax payers? Why? Explain. [3]

c) The table shows summary of budget re-appropriation as of March 31st 2020.

Particulars	Approved Budget (Nu. in million)	Revised Appropriation (Nu. in million)
Expenditure	61,197.307	64,615.466
Current Expenditure	34,652.765	35,819.345
Capital Expenditure	26,544.542	28,796.121
Répayments	3,306.333	1,817.513
Internal	11.404	11.404
External	3,294.929	1,806.109
On Lending	323.085	323.085
Grand Total	64,826.725	66,756.064

(Source: National Budget Report, 2020-2021)

The current and capital expenditure have increased in the revised appropriation as compared to the approved budget.

What could be the possible reasons for this scenario?

[4]

Question 8

a) Explain the following:
i. International trade

[1]

ii. Absolute cost theory

[1]

iii. Comparative cost theory

[1]

b) 'International trade takes place due to difference in the cost of production.'

What are the probable reasons for such cost differences?

[2]

c) 'Fiscal Policy has been extensively used in most developing countries in bringing about economic growth and equity.'

Of the two objectives, which one is more important as per the current economic status in Bhutan? Why? Justify your answer.

[5]

Question 9

a) Bhutan's trade deficit during the year 2019 stood at Nu. 27 billion, a decrease from Nu.30 billion and Nu. 29.6 billion in 2018 and 2017 respectively."

(Source: Kuenselonline.com, April 13, 2020)

Although there is a drop in trade deficit, measures must be taken to balance the trade. How would you correct the trade deficit?

[5]

b) Four sector model of the circular flow of income shows the interaction between the different sectors of the economy and rest of the world.

How are different sectors in an economy interrelated and interdependent on each other?

[3]

c) With modernization and introduction of scientific methods of production, most of the production units today use advanced, sophisticated and specialized machinery.

Is it wise to shift from a labour driven to machine based production? Justify your answer.

[2]

Question 10

- a) Government debt at times becomes necessary to meet the essential expenditures rather than cutting its spending.

Apart from meeting the budgetary deficit, why does a government resort to internal borrowing?

[2]

b) Monsoon floods completely damage rice grown on a large scale for commercial purposes.

What will be its effect on the equilibrium price and quantity of rice? Support your answer with the help of a diagram.

[4]

c) ‘A rational consumer will always aim to maximize the utility from consumption of goods and services.’

What are the ways to enhance rational consumption decision? Mention **FOUR** and explain.

[4]

