

**SECTION A (50 MARKS)**  
**ANSWER ALL QUESTIONS**

**Question 1**

**[15]**

a) For each question, there are four alternatives A, B, C and D. Choose the correct alternative and circle it. Do not circle more than ONE alternative. If there are more than one choice circled, NO score will be awarded.

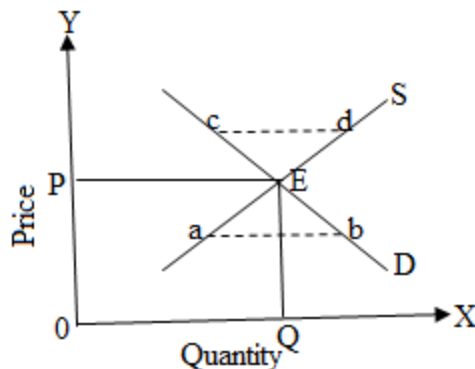
i. Which one of the following factors affect the supply of a commodity in the market?

- A size of population
- B consumers' income
- C price of factors of production
- D consumers' tastes and preferences

ii. The sources of government revenue are

- A taxes, borrowings and commission.
- B taxes, borrowings and grants.
- C grants, aids and commission.
- D fees, taxes and commission.

iii. Study the diagram below.



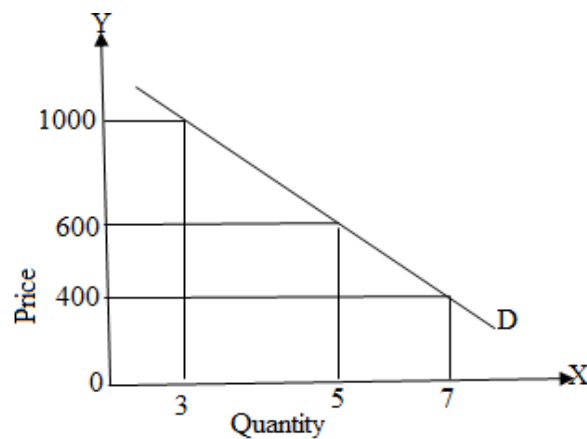
The excess demand is represented by points

- A a to b.
- B c to d.
- C a to d.
- D b to c.

iv. Which of the following will lead to an increase in equilibrium price?

- A increase in income of consumers
- B decrease in income of consumers
- C decrease in price of substitutes
- D increase in price of complements

v. The graph below represents change in price and quantity demanded of a commodity.



If the price falls from Nu 1000 to Nu 400, what will be the price elasticity of demand?

- A 0.33
- B 1.22
- C 2.22
- D 3.33

vi. A firm's total output is 50 units. The firm incurs a total expenditure of Nu 1000 as a fixed cost and Nu 500 as variable cost.

The firm's average cost is

- A Nu 10.
- B Nu 20.
- C Nu 30.
- D Nu 40.

vii. To bring about a balance between spiritual and material well-being, the government must prioritize on

- A urban development.
- B lopsided development.
- C industrial development.
- D equitable development.

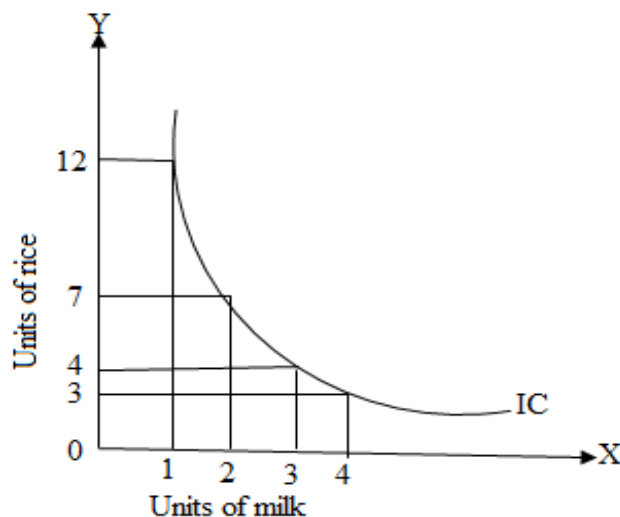
viii. The table below represents the production levels of country A and B.

Country	Laptops	Television sets
A	100	200
B	50	40

Country 'A' is

- A 2 times better than country B in production of TV sets.
- B 3 times better than country B in production of laptops.
- C 4 times better than country B in production of laptops.
- D 5 times better than country B in production of TV sets.

ix. The following diagram represents an indifference curve of a consumer.



Indifference curve is convex to the origin because the

- A consumer prefers milk more than rice.
- B consumer's willingness to sacrifice rice increases.
- C consumer's willingness to sacrifice rice decreases.
- D consumer consumes less of rice to consume more of milk.

x. Following are some of the needs for preparing government budget:

- I To reduce income inequality.
- II To increase public debt.
- III To measure government's performance.
- IV To properly allocate resources among different sectors.

Which of the following best explains the reasons for preparing government budget?

- A I, II & III
- B I, II & IV
- C I, III & IV
- D II, III & IV

xi. The operation of a four sector model of circular flow of income depends on

- A capital market, firms, households and government.
- B government, firms, households and rest of the world.
- C capital market, firms, households and rest of the world.
- D government, capital market, firms and rest of the world.

xii. A country has surplus balance of payment when its

- A debt burden is increased.
- B foreign demand is increased.
- C developmental activities expand.
- D supply of agriculture produce fall.

xiii. The adverse impact of cutting down public expenditure on human resources will

- A elevate poverty.
- B eliminate poverty.
- C boost economic growth.
- D decrease public expenditure.

- xiv. Any spending by the government must be directed by a productive and efficient allocation of resources, otherwise it could result in
- A increase in per capita GDP.
  - B excessive unproductive debts.
  - C creation of employment opportunities.
  - D increase in production of capital goods.
- xv. To achieve equity with fiscal policy, the government must adopt the policy of
- A regressive taxation.
  - B progressive taxation.
  - C degressive taxation.
  - D proportional taxation.

**b) Fill in the blanks with appropriate word/s.**

**[5]**

i.	A short-run production function is characterized by an input which is _____ and all other inputs are assumed to be constant.	
ii.	In a circular flow of income, if injections overweigh leakages, the country's national income will _____.	
iii.	A government incurs expenditure on administrative services like police, defense and administration of justice. These expenses are referred to as _____ expenditure.	
iv.	The average fixed cost curve approaches x and y-axes but it never touches the axes because average fixed cost cannot be _____.	
v.	To ensure economic stability with fiscal policy during a situation of inflation, the government expenditure should be _____.	

- c) Match each item under column A with the most appropriate item in column B. [5]  
 Rewrite the correct pairs by writing the alphabet against the number in the space provided.

Column A	Column B
i. The collective demand of households.	a. gross domestic product
ii. The point at which the quantity demanded and supplied of a commodity are equal.	b. public debt
iii. The aggregate income generated by all the production units located within the domestic territory of a country.	c. satiation point
iv. A situation where marginal utility of a commodity is zero.	d. equilibrium
v. The aggregate income generated by the citizens living within and outside the country.	e. negative returns
vi. A strategy adopted by the government during the boom period.	f. gross national product
vii. An effect of employing excessive labour to a given unit of capital.	g. equilibrium price
viii. A policy adopted by the government to control depression.	h. taxation
ix. An activity through which the government can ensure social justice.	i. market demand
x. A tool used by the government to regulate production and investment.	j. balanced development
	k. deficit budget
	l. surplus budget

Column A	Column B
i.	
ii.	
iii.	
iv.	
v.	
vi.	
vii.	
viii.	
ix.	
x.	

**d) Write TRUE or FALSE for the following statements. [5]**

i.	GNH as a development philosophy is based on the belief that happiness is dependent on physical, environmental, economic and spiritual well-being.		
ii.	Depreciation in the value of home currency leads to unfavorable balance of payment.		
iii.	The Royal Government of Bhutan's proposal to provide tax holiday for hotels and resorts will help stimulate investment in the economy.		
iv.	Good governance encompasses accountability, social justice and equity.		
v.	The relief kidu fund released during the time of COVID-19 crisis is an example of supplementary budget.		

**e) Answer the following questions briefly.**

i. Suppose imported potato is an inferior good, what would happen to the demand for such a commodity due to change in income of the consumer? [2]


ii. The table below represents the supply of mangoes by firm X.

Price (Nu/kg)	Quantity (kg/week)
100	10
200	10
300	10

Identify the degree of elasticity of supply and explain it. [2]



- iii. A consumer allocates Nu 600 on purchase of two commodities, food and clothes. Price per unit of food is Nu 200 and price per unit of clothes is Nu 100.

Using a budget schedule, derive the possible combinations of food and clothing that can be consumed by the consumer.

[2]

--	--

- iv. How would the following affect Bhutan's balance of payment?

a) Remittance from the Bhutanese working in Australia.

[1]





- b) Bhutanese nationals spending their vacation in Thailand. [1]


- v. Participation in international trade will bring numerous gains to the member countries. [2]

How can international trade enable efficient utilization of resources?


- vi. The demand for Samyang noodles has been on the rise as most Bhutanese youths today follow the Korean consumption style. [2]
- Would you consider such consumption habit as a healthy trend? Give **TWO** justifications.



- vii. Regional trade is at the heart of global economy and it is a contributing factor in development and prosperity of the modern industrialized world.

Do you think that regional trade will always bring about development and prosperity for the member nations? Justify with **TWO** points.

[2]


- viii. In order to ensure and realize equitable distribution of income, government should plan expenditure programs which will benefit the backward sections of a society.

Will one-time expenditure on the projects ensure equitable distribution of income? Support your answer with **TWO** points.

[2]



- ix. The steady rise in public debt of a country over the years demonstrates a strong correlation between public spending, economic and social development.

What would be some of the positive impacts of rising public debt in the provision of education facilities and services?

[2]


- x. According to Asian Development Bank report, economic growth in Bhutan is forecasted to contract by 3.4% during the fiscal year 2021 as compared to 0.9% in 2020.

*(Source: Asian Development Bank report, April 29, 2021)*

What would happen to the economy if the government creates an additional money of Nu15 billion?

[2]



**SECTION B (50 MARKS)**  
**ANSWER ANY FIVE QUESTIONS**

**Question 2**

- a) Define the following:  
i. Increase in demand

**[1]**


- ii. Decrease in demand

**[1]**


b) Explain **TWO** situations in which the law of supply does not operate.

[2]


c) Imagine you spend three hours of your time daily over networking with your friends on a smart phone.

[2]

What would be the opportunity cost of such a decision?


- d) Developed countries invest huge amount of money in Research and Development (R&D) to enhance production.

How can prioritizing public expenditure on R& D boost economic development in Bhutan?

[4]



**Question 3**

- a) Consumers buy more of a commodity at a lower price which causes the demand curve to be negatively sloped.

**[3]**

What factors cause the demand curve to slope downwards?


- How can the adoption of GNH as a guiding principle for socio-economic development curb such issues? [5]

[illegible]




c) The Royal Government of Bhutan often adopts quotas and tariffs as a measure to rectify deficit in the balance of payment.

In your opinion, are these measures appropriate for a developing nation? Give **TWO** justifications.

[2]


**Question 4**

a) What is deficit financing?

[2]


b) Imagine you are operating a car production unit.

How can you apply the law of variable proportions to maximize production of cars?

[4]



c) As per indifference curve analysis, a consumer tries to achieve the highest possible indifference curve to maximize utility.

Will a consumer necessarily be better off by consuming a greater quantity of goods and services? Support your stand with **TWO** points.

[4]




### Question 5

- a) Though people in Denmark pay very high taxes, they enjoy quality life.

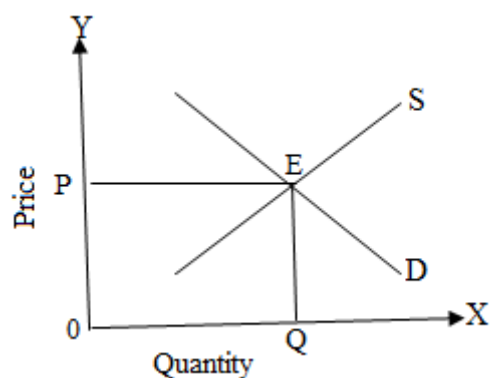
(Source: *Huffington Post*, May 25, 2013)

## How can filing taxes honestly benefit the tax payers?

**[3]**

[illegible]

- b) The diagram represents equilibrium in Bhutanese chilli market.



- Show the effect on equilibrium price and quantity if:
- i. the government increases its subsidy to the agricultural sector. [2.5]

--	--

- ii. the consumer expects the future price of chillies to increase. [2.5]

--	--

- c) Currently, Bhutanese export is largely driven by hydropower and tourism.  
Suggest measures to diversify its exports.

[2]


**Question 6**

- a) What do you understand by:

- i.  $NDP_{mp}$  ?

[1]


- ii.  $GNP_{mp}$ ?

[1]


- b) The table below shows the total external debt by currency composition.

Source	Currency (in percentage)
Indian Rupees (INR)	72
U.S Dollar	25
Japanese Yen	2
Euro	1

*(Public Debt Situation Report, MoF, Sept 30, 2020)*

How can the government of Bhutan allocate and utilize such a huge amount of debt to:

- i. boost trade and commerce?

[2]


- ii. uphold culture and tradition?

[2]






### Question 7

- a) Fill in the table using the concept of absolute cost advantage and explain how trade creates a win-win situation for both the countries.

[4]

Product	Cost of production (Nu)	
	Korea	Bhutan
Wool		
Silk		

[illegible]


- b) If deficit financing is used excessively, an economy could experience hyperinflation.

[2]

What would be the consequences of hyperinflation on the economy?


- c) Excessive import of goods and services leads to deficit in the balance of payment (BoP).

[4]

Is deficit BoP always bad for a country's economy? Give **FOUR** reasons.