

SECTION A (50 MARKS)
ANSWER ALL QUESTIONS

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. [15]

i. When the percentage change in quantity demanded is more than the percentage change in price, it results in

A elastic demand.
B inelastic demand.
C perfectly elastic demand.
D perfectly inelastic demand.

ii. The consumption of fixed capital in the process of production is

A deflation.
B devaluation.
C appreciation.
D depreciation.

iii. Expenditure on purchase of health equipment, construction of labs in schools and installation of communication networks are examples of

A non-developmental expenditure.
B developmental expenditure.
C unproductive expenditure.
D productive expenditure.

iv. What would happen to the equilibrium price and quantity of rice if farmers experience drought?

A increase in equilibrium price and quantity
B decrease in equilibrium price and quantity
C decrease in equilibrium price and increase in equilibrium quantity
D increase in equilibrium price and decrease in equilibrium quantity

v. Bhutanese consumers have gained from international trade with greater choices, cheaper goods and advanced products. However, there are challenges associated with it. One such challenge is

A dislodging of domestic industries.
B dominance by domestic industries.
C competition in the global market.
D import of technologies.

vi. Suppose a country's debt to GDP ratio is very high, what would you suggest to avoid unproductive public debt?

A save the borrowed money in a separate account
 B use the borrowed money in development projects
 C use the borrowed money in public service delivery
 D use the borrowed money to overcome the pandemic

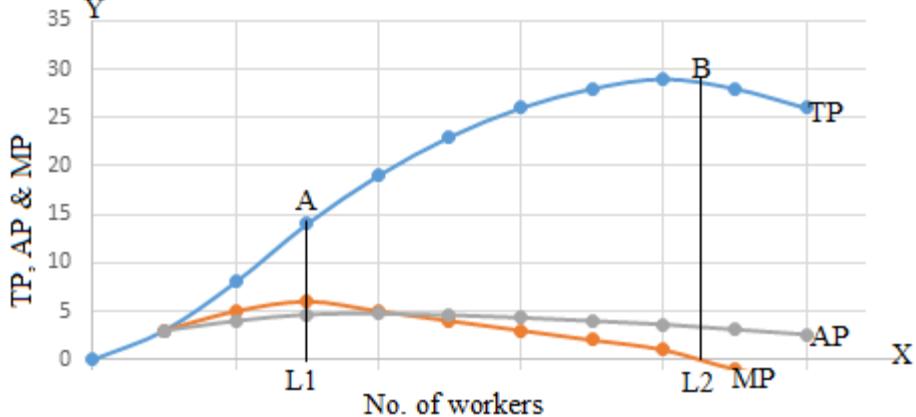
vii. Study the information in the table.

Units of Pizza	Marginal Utility (Nu)
1	500
2	400
3	300
4	200

If the price of pizza is Nu. 400 per unit, how many units would you consume to maximize total utility?

A 1
 B 2
 C 3
 D 4

viii. The graph represents TP, AP and MP of a firm in the short run.



When the firm's TP increases from A to B, MP

A increases.
 B decreases.
 C becomes zero.
 D becomes negative.

ix. 'The Finance Ministry has extended the exemption of Business Income Tax until 31 December, 2024 for small and micro businesses especially in the rural areas.'

(Source: BBS Jan 1,2021)

The positive impact of such an initiative is increase in

- A tour operators.
- B cooperate businesses.
- C construction activities.
- D employment generation.

x. When there is a rise in wage, the supply of a commodity will

- A remain constant.
- B drop to zero.
- C decrease.
- D increase.

xi. A firm's average cost decreases in the long run due to marketing economies. The marketing economies benefit the firm due to

- A growth of ancillary industries.
- B use of advanced techniques of production.
- C purchase of raw materials in huge quantities.
- D application of division of labour and specialization.

xii. Imagine an economy where Dophu and Saku are the only residents producing two goods X and Y. Dophu is able to produce more of both the goods than Saku.

Which of the following conditions would benefit both of them?

- A Dophu should produce both and sell to Saku
- B Saku should produce both and sell to Dophu
- C both of them should produce for self-consumption
- D both of them should specialize in the production of one product

xiii. Over the years, Bhutan's balance of trade has been in deficit due to excessive import. A factor leading to Bhutan's excessive import is the

- A rise in production of foreign goods.
- B rise in production of domestic goods.
- C increase in demand for foreign goods.
- D decrease in demand for foreign goods.

xiv. An economic depression is characterized by high rates of unemployment and growing poverty. During such a situation, the government must

- decrease expenditure and increase revenue.
- increase expenditure and decrease revenue.
- increase expenditure and revenue.
- decrease expenditure and revenue.

xv. In the four sector model of circular flow of income, there are some payments for which there are no reverse real flow. Such payments are in the form of

- factor payments.
- transfer payments.
- payment for imports.
- payment for goods and services.

b) Fill in the blanks with appropriate word/s.	[5]
i. The imputed value of the inputs owned by the firm and used in its own production unit is called _____ cost.	
ii. From the initial equilibrium, if demand increases by a smaller proportion than supply, the equilibrium price would _____.	
iii. The COVID -19 pandemic has called for substantial fiscal stimulus to support and boost economic activities. To ensure a proper economic recovery, the government must adopt _____ fiscal policy.	
iv. If coffee is a habitual product, the elasticity of demand for it will be _____.	
v. In the market period, the supply curve is vertical because the quantity supplied of a commodity remains _____.	

c) Write TRUE or FALSE for the following statements in the space provided.	[5]
i. Other factors remaining same, if producers expect price of a commodity to rise in the future, they will supply lesser quantity currently.	
ii. There will be a contractionary effect on the circular flow of income of a country if payments to the rest of the world is more than the receipts.	
iii. Suppose the initial exchange rate is US \$ 1= Nu. 65. If the exchange rate is revised to US \$ 1 = Nu. 70, imports will become cheaper and exports expensive.	
iv. Indifference curve analysis is superior to marginal utility analysis as it claims that, utility can be expressed in terms of scale of preferences.	

v.	The government raises fund by issuing bond and debt security to its people. The accumulated fund can be used to pay off its external debt.	
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d) **Match each item under column A with the most appropriate item in column B.**
Write the correct alphabet in the space provided under the 'answer' column. [5]

Answers	Column A	Column B
	i. An outlet for surplus production of a country	a. GNH
	ii. A policy concerned with imposing tax and borrowing	b. Direct tax
	iii. A measure to control inflation within the country	c. Budget
	iv. A spending plan of the government to influence the economic activities in an economy	d. Social services
	v. A factor that negatively affects savers, pensioners and employees on fixed income	e. Compensation of employees
	vi. People of developing countries imitate the consumption pattern of developed countries	f. International trade
	vii. A national conscience guiding people towards creating a harmonious society	g. Inflation
	viii. Government spending on civil services and educational services	h. Demonstration effect
	ix. Revenue of the government generated from issuing royalty permit for timber and sand	i. Internal borrowing
	x. A part of national income which constitutes salaries and fringe benefits	j. Fiscal policy
		k. Monetary policy
		l. Indirect tax

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

i. Price elasticity of demand is a measure of how sensitive consumers are to the change in price.
 Explain how essential goods and few substitutes will cause demand for a good to become inelastic. [2]

ii. The total domestic revenue realized during FY 2019-2020 was Nu. 36,218.876 million compared to Nu. 34,707.670 million in the FY 2018-2019.

(Source: National Revenue Report FY 2019-2020)

Discuss the benefits of increased domestic revenue.

[2]

iii. GDP is the most visible and influential economic indicator of a nation. However, it fails to consider non-economic well-being.

How can a country use its GDP to achieve ecological diversity and resilience?

[2]

iv. A firm must allocate the resources efficiently to minimize cost and enhance the quantity and quality of goods and services it produces.

[2]

Suggest ways through which a firm can increase its efficiency.

v. Recent decades have seen rapid growth of the world economy. This growth has been driven by faster rise in international trade.

(Source: www.imf.org)

What will Bhutan lose if it is not a participant of the international trade community?

[2]

vi. Deficit financing refers to a situation where funds are generated to finance the deficit which is a result of excessive expenditure over revenue.

Should the government encourage deficit financing for its developmental activities? Support your answer with **TWO** reasons.

[2]

vii. A country may resort to import substitution to reduce the volume of imports and make it self-reliant.

Can Bhutan check its negative balance of payment with the adoption of import substitution strategy? Give **TWO** justifications.

[2]

viii. Suppliers are motivated to supply more at a higher price to maximize their profit. [2]
Should the Bhutanese produce for profit maximization when the country's emphasis is on human values? Justify with **TWO** reasons.

ix. Revenue is the amount of money that a firm generates from selling its goods and services. Firms need revenue to ensure their day to day operations.
If you were to own a business, what would you do to increase the revenue? [2]

x. Budgeting is the process of creating a plan to spend one's money meaningfully. Therefore while at home, at work or in school, planning a budget is of vital importance for good finance management. [2]

What would be the benefits of personal budgeting? Mention **TWO**.

SECTION B (50 MARKS)
ANSWER ANY FIVE QUESTIONS

Question 2

a) Explain **TWO** objectives of the budget system in Bhutan.

[2]

b) Discuss **THREE** factors that determine the supply of a commodity. [3]

c) Though a country enjoys absolute advantage in the production of both the commodities, it is advisable to specialize in the production of one commodity.

Why is it important for countries to specialize?

d) Heavy workload has negative effect on the health and productivity of employees.

Can integration of GNH values in business plans promote happiness of workers and enhance their productivity? Give **TWO** justifications.

[3]

Question 3

a) Firms under perfect competition do not have to reduce the price to sell more units of an output. Hence its average revenue remains constant.

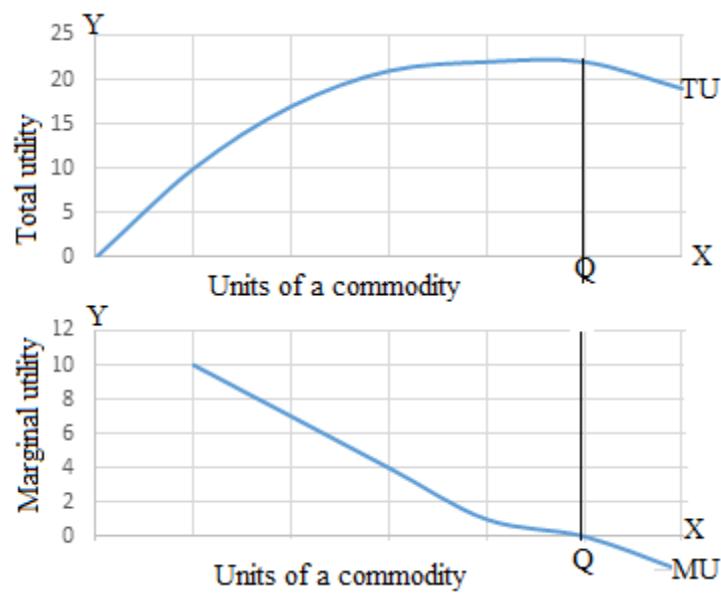
With increase in output sold, what would happen to a firm's total revenue and marginal revenue?

b) The price elasticity of demand for a commodity is 0.5. With the fall in price of the commodity from Nu. 150 to Nu. 50 per unit, the quantity demanded changed by 80 units.

Calculate the initial and new quantity of the commodity demanded.

c) Study the diagram.

[3]



As shown in the diagram, the behavior of TU depends on the behavior of MU. Explain.

d) One of the national key result area (NKRA) of 12th FYP is ‘food and nutrition security’ which aims to increase food production to enhance food self-sufficiency and nutrition security.

(Source: 12th FYP Main Document, Vol. I)

How would you allocate public funds to achieve the mentioned NKRA?

[3]

Question 4

a) Explain **TWO** merits of direct tax.

[2]

b) Interest waiver granted by the Royal Government of Bhutan on the loans served as a lifeline for many during the COVID-19 pandemic.

(Source: *Kuensel*, February 21, 2021)

Discuss the benefits of interest waiver.

[4]

c) Tax is an inevitable source of public revenue.

Should the government increase tax rates to redeem its public debt? Support your stand with **TWO** reasons.

[4]

Question 5

a) Explain the law of returns to a factor and returns to scale.

[2]

b) The demand for traditional artifacts are very high while its supply is fixed.

[5]

With the help of demand and supply curves, explain the effect of increase in demand for such goods on the equilibrium price and quantity.

c) To finance the fiscal deficit, the government resorts to external and domestic borrowings. Moreover, these borrowings are with minimal interest rates and long repayment periods enabling the government to invest in socially beneficial projects.

(Source: *Budget Report 2019-2020, MoF: Bhutan*)

What are some of the benefits of using the borrowed money on socially beneficial projects?

[3]

Question 6

a) Define :
i. Average revenue

[1]

ii. Marginal revenue

[1]

b) The Royal Government of Bhutan recognizes that tourism is a worldwide phenomenon and an important means of achieving socio-economic development particularly for a developing country like Bhutan.

(Source: www.tourism.gov.bt)

How will the recognition of tourism industry in Bhutan address the country's adverse balance of payment?

[5]

c) International trade allows countries to specialize in production of those goods and services in which it has comparative advantage. However, there are countries which still adopt protectionist trade policy by imposing trade barriers.

Do you think removal of trade barriers will help promote domestic industries in Bhutan? Justify with **TWO** points.

[3]

Question 7

a) Explain the following components of balance of payment:
i. Current account

ii. Capital account

b) Economies of scale is a situation in which increase in scale of production gives rise to certain benefits to the producers.

How are firms benefitted when their scale of production expands in the long run? [3]

c) Under the Fiscal Incentives Act of Bhutan 2021, the Royal Government had provided various incentives under direct and indirect tax to withstand the current economic situation.

Kuensel, June 7, 2022.

How have these incentives contributed in the recovery of post pandemic economic growth in Bhutan?

[3]

d) Zero waste management program is adopted by all organizations with the rapid rise in global waste and plastic pollution crisis.

To promote this program, what policy measures does the government need to adopt?

[2]