

SECTION A [50 MARKS]
ANSWER ALL QUESTIONS

Question 1

a) **Direction: For multiple choice questions, 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 is more than one choice circled, NO score will be awarded.** [15]

i. A point inside the budget line indicates that the combination of goods

- A unaffordable and not preferred.
- B affordable but not preferred.
- C preferred but unaffordable.
- D affordable and preferred.

ii. When more units of a variable factor are employed to the given units of fixed factor, after the point of inflexion, the total product

- A increases at an increasing rate.
- B increases at a diminishing rate.
- C increases at a constant rate.
- D starts decreasing.

iii. The following are the costs associated with production of goods and services of a firm.

- I entrepreneur taking the role of manager in his/her own firm
- II value of unpaid family members' time and labour
- III use of personal property during production
- IV payment on purchase of raw materials

Which of the above costs are implicit costs?

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

- iv. If a firm produces an output where the marginal cost is below the marginal revenue, what should the firm do to maximize profit?
- A shut down operations to avoid losses
 - B stay at the current production level as profit is maximized
 - C increase the production to the point where marginal cost equals marginal revenue
 - D decrease the production to the point where marginal cost equals marginal revenue

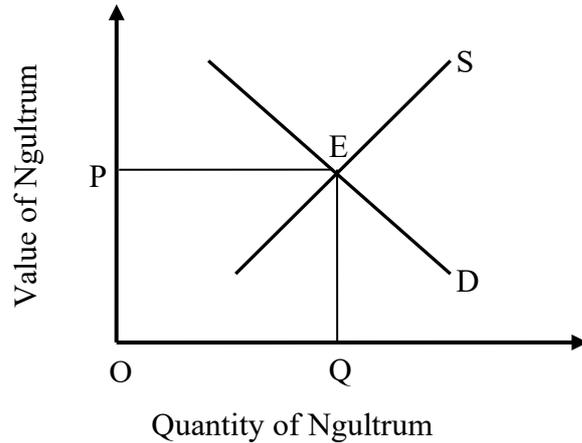
- v. Use the information given in the table.

Commodities	Weight	Price in Nu	
		2023	2020
Food	40%	50	45
Education	20%	25	22

Calculate the consumer price index.

- A 67.16
 - B 111.60
 - C 114.00
 - D 202.12
- vi. The taxation system used to ensure that individuals with higher incomes contribute a higher proportion of taxes is
- A degressive tax.
 - B regressive tax.
 - C progressive tax.
 - D proportional tax.
- vii. Which of the following is **NOT** the appropriate method of deficit financing?
- A borrowing
 - B increasing taxes
 - C printing new currency
 - D withdrawing cash reserves

- viii. If an economy experiences rise in economic activities and increase in aggregate demand, which of the following fiscal measures will be the most suitable to the government?
- A increase the taxation and reduce the public spending
 - B reduce the taxation and increase the public spending
 - C increase both the taxation and public spending
 - D reduce both the taxation and public spending
- ix. If government increases its capital expenditure, what would be the impact on the country's income?
- A more injections in the circular flow of income
 - B more leakages in the circular flow of income
 - C less injections in the circular flow of income
 - D injection equals leakages in the circular flow of income
- x. Suppose the NDP_{MP} of an economy is Nu 5000, net indirect tax is Nu 2000 and the depreciation allowance is Nu 100. What would be the value of GDP_{FC} ?
- A Nu 7000
 - B Nu 510
 - C Nu 3100
 - D Nu 2900
- xi. Which of the following statements describes the analysis of trade volume?
- I trade volume is influenced by factors such as economic growth and consumer demand
 - II fluctuations in exchange rates can impact the volume of international trade
 - III trade volume remains constant regardless of changes in exchange rate
 - IV trade policies of a country determines volume of trade
- A I, III and IV
 - B I, II and IV
 - C II, III and IV
 - D I, III and IV
- xii. Study the diagram below.



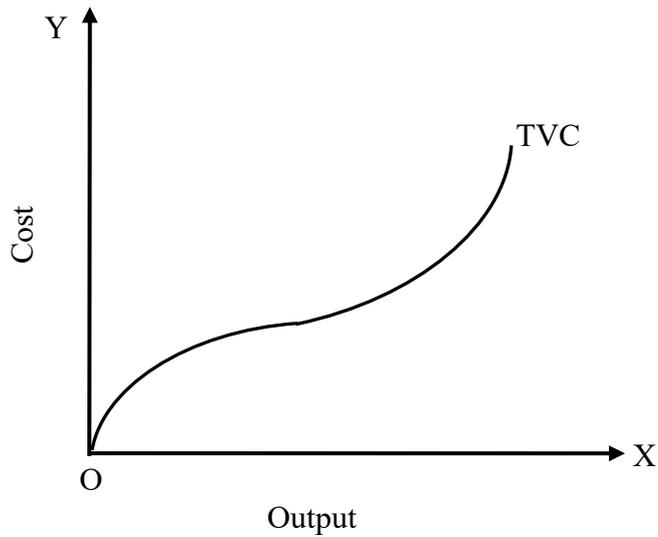
If Bhutan increases its exports, what would happen to the demand and supply curves of Ngultrum?

- A demand curve shifts to right and supply curve remain same
- B demand curve shifts to left and supply curve remains same
- C demand curve remains same and supply curve shifts to right
- D demand curve remains same and supply curve shifts to left

xiii. According to the modern theory of rent, rent arises when the supply of factor is generally

- A relatively inelastic.
- B relatively elastic.
- C perfectly elastic.
- D unitary elastic.

xiv. Study the diagram below.



The TVC curve starts from the origin because

- A a firm needs to bear variable cost when the output is zero.
 - B a firm need not bear variable cost when the output is zero.
 - C it indicates the total revenue generated at zero output.
 - D it represents the average fixed cost at zero output.
- xv. Assume that Cristiano Ronaldo is the only top football star and is paid the highest remuneration amongst all footballers. Such income can be described as
- A transfer earning.
 - B economic rent.
 - C actual earning.
 - D opportunity cost.

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

[5]

i.	Indifference curves are typically _____ to the origin, indicating the diminishing marginal rate of substitution.	
ii.	The change in total revenue resulting from selling an additional unit of output is called _____.	
iii.	Adding depreciation cost to the NDP_{FC} results in _____.	
iv.	The tax burden which shifts from producers to consumers is termed as _____ of tax.	
v.	Sometimes, firms under _____ market structure, collude to set prices for maximizing their profits.	

c) Write TRUE or FALSE for the following statements in the space provided.

[5]

i.	When a firm employs more units of labour, it experiences negative returns owing to fuller utilization of fixed factors.	
ii.	The expenditure on bricks used in the construction of a building is included in the calculation of national income.	
iii.	Increasing public debt causes economic instability, but government can resort to public borrowing for stabilizing the economic situations through effective debt management.	
iv.	When a firm chooses to produce that level of output, where the MC curve cuts the MR curve from below, a firm attains maximum profit.	
v.	Cardinal approach to consumer's equilibrium explains that consumer's satisfaction is measurable, while the ordinal approach explains that consumer's satisfaction is relative.	

- d) Match each item under column A with the most appropriate item in column B. [5]**
Write the correct alphabet in the space provided under the ‘answer’ column.

Answer	Column A	Column B
	i. The highest indifference curve is desirable but unachievable	a) perfect competition
	ii. Mr. Sonam gains additional satisfaction with each additional slice of pizza he consumes	b) complementary budget
	iii. As the firm expands its production, average revenue and marginal revenue tends to diverge	c) total utility
	iv. The sale of each additional unit of a commodity brings the same additional revenue to the firm	d) budget constraint
	v. Supplementary budget that is prepared to cover the rising costs of programmes and activities	e) marginal utility
	vi. Supplementary budget approved on account of the change in scope and emergence of extra work which were initially not planned	f) capital expenditure
	vii. Government decides to construct additional ICT labs in the schools	g) current expenditure
	viii. Local leaders decide to spend Nu 2 million in renovating a recreational park in the locality to promote mental wellbeing of elderly citizens	h) additional budget
	ix. When the average revenue is greater than the average cost, a firm earns	i) loss
	x. Due to freedom of entry and exit, in the long run, a firm under perfect competition earns	j) abnormal profit
		k) imperfect competition
		l) normal profit

e) Answer the following questions briefly

- i. Is it feasible for a firm to boost its production after reaching the stage of negative returns? Justify your answer with **TWO** points. [2]

- ii. According to the Tourism Rules and Regulations of Bhutan 2022, the sustainable development fee (**SDF**), which was previously USD 65 per night per person for international tourists has been raised to USD 200 per night and visitors from India, Maldives, and Bangladesh must now pay Nu 1,200 per person per night, which was previously free. [2]

The government expects that this revision would bring more social benefits than costs. Do you agree? Justify your stand with **TWO** valid points.

- iii. The trade union representing the employees of a firm have expressed strong demands for increased wages and additional monetary incentives. However, the firm cannot consider these demands owing to financial constraints. [2]

How can the firm appease the employees through non-monetary measures? Provide **TWO** measures.

- iv. Discuss **TWO** differences between primary data and secondary data. [2]

Primary data	Secondary data	

- v. The Annual Budget Report, 2022-2023 presented by the Finance Minister of Bhutan, shows the highest ever fiscal deficit of Nu 22.882 billion which is 11.25 percent of GDP.
As a responsible citizen, suggest **TWO** measures that you can adopt to reduce the burden of deficit financing.

[2]

- vi. "Having failed to attract foreign direct investment (FDI) over the years, the FDI Policy is again on the government's table for review. According to the Asian Development Bank (ADB), the average FDI inflows to Bhutan have been less than USD 20 million a year since 2010, contributing less than 1 percent of the gross domestic product"

[2]

(Kuensel, 13th February 2023)

Suggest **TWO** areas of priority for investment to attract foreign direct investment.

- vii. Bhutan and India have established a fixed exchange rate regime by pegging their currencies. This indicates that Ngultrum (NU), is at a one-to-one parity with Indian Rupee (INR). [2]
 Examine **ONE** benefit and **ONE** drawback of this exchange rate regime.

- viii. Government sector is one of the important sectors in the circular flow of income. [2]
 Discuss the roles of the government in a circular flow of income.

- ix. "Budget for 2023-2024 stands at Nu 85.5 billion. Nu 45.5 billion is allocated for recurrent expenditure and only 29.9 billion is allocated for the capital work." [2]

(Source: Kuensel, 10th June, 2023)

Is the government's allocation of budget for the fiscal year 2023-2024 appropriate?
 Explain your opinion with **TWO** relevant points.

x. The information in the following table shows the sources of income of an economy. [2]

Using the information, calculate the operating surplus.

Sl. No	Item	Nu (million)
1	Consumption of fixed capital	25
2	Employers' contribution to the social security	75
3	Interest	160
4	Net indirect tax	55
5	Dividend	45
6	Rent	130
7	Corporate tax	15
8	Undistributed profit	10
9	Mixed income	25
10	Net factor from abroad	-20
11	Wages and salaries	500

SECTION B [50 MARKS]
ATTEMPT ANY FIVE QUESTIONS

Question 2

- a) State **TWO** assumptions of the law of diminishing marginal utility. **[2]**

- b) Mr. Kado's firm produces chairs. He observes the following levels of production corresponding to different numbers of workers he employs.

No. of workers	Production (No. of chairs)
1	10
2	13
3	18
4	24
5	28
6	28
7	25

- i. Calculate the marginal product of labour for all the workers. **[1]**

- d) Use the following table, to calculate the price index number by simple aggregative method. [2]

Commodity	Price (2018)	Price (2022)
Apple	100	150
Bread	40	50
Milk	50	65

Question 3

- a) In the fast-food industry, both Burger King and McDonald’s offer similar products such as hamburgers, fries, and soft drinks, but with subtle differences in taste, ingredients, and branding.
- i. If Burger King and McDonald's collude, what would be some of the effects on the economy? Mention **ONE** each. [2]

- ii. If only Burger King decides to increase the price of a commodity, how would McDonald's react to this price change? Explain. [1]

- b) Discuss **TWO** differences between floating exchange rate and managed exchange rate. [2]

Floating exchange rate	Managed exchange rate	

- c) The following list shows the hypothetical data of sources of income in an economy:
- Primary sector generated a gross value of output worth Nu 1000 million.
 - Secondary sector contributed Nu 900 million.
 - Tertiary sector produced Nu 500 million worth services.
 - Intermediate consumption of a sector amounted to Nu 350 million, Nu 320 million, and Nu 100 million respectively.

- Consumption of fixed capital was Nu 80 million.
- Net indirect taxes was Nu 85 million.
- Net factor income from abroad of Nu (-) 15 million.

Using the above information, calculate:

i. Gross Domestic Product at market price.

[2]

ii. Net National Product at factor cost.

[2]

- iii. Why is value-added method preferred to other two methods in calculating the national income? [1]

Question 4

- a) Fiscal year budget for 2022-23 aims at “Accelerating Economic Recovery through strategic investments in the areas of food self-sufficiency, human capital development, sustainable infrastructure development and improved social security.”

Source: Budget report for FY 22-23

As a representative of the local government, how would you pursue the goal of achieving food self-sufficiency? Describe **TWO** strategies to accomplish this objective. [2]

- b) Using an appropriate diagram, explain the behaviour of total revenue and marginal revenue of a firm under perfect competition. [3]

- c) Statistics supports in an informed decision making. Do you agree? Justify with **TWO** [2]
valid points.

d) Lhazang Bakery initially produces 100 loaves of bread per day, incurring a total cost of Nu 4000. However, due to an increase in demand, the bakery decides to ramp up its production to 200 loaves per day. Surprisingly, the bakery observes a decrease in average cost, as the total cost of production now amounts to Nu 7000. Encouraged by this, the proprietor further increases the daily production to 300 loaves of bread. Unfortunately, this expansion leads to an increase in the average cost of production, with the total cost amounting to Nu 15000.

i. Explain **TWO** potential factors that contributed to the decrease in average cost of production. [2]

ii. Discuss **ONE** possible reason for increase in average cost after certain level of production. [1]

b) Land Taxes in Bhutan have not been touched since 1992 which is why in rural areas Chuzhing land tax is still Nu 24 per acre per year and Nu 12 per acre for Kamzhing land. The Finance Minister presented the Property Tax Bill of Bhutan 2022 today where he said that land tax will no longer be charged based on the area, but based on the value of the land and also the building. This will replace the 1992 property taxation policy under which people currently pay very nominal land and property tax rates.

[4]

Will these tax reforms help in achieving the objectives of fiscal policy? Justify your answer

Question 7

a)

- i. A firm increased all its inputs proportionately and noticed that the total output increased at a greater rate than its the proportional increase in its inputs.

Explain any **TWO** causes of increasing returns to scale.

[2]

- ii. Mr. Karma will be completing his 12th grade this year. He has two options, to continue with higher education or immediately get a job.

In such a situation, how can Karma apply the concept of opportunity cost to make an informed decision?

[2]

- c) Jurmey has Nu 500 to spend on chocolates and candies. The price of 1 unit of chocolate is Nu 25 and the price of 1 unit of candy is Nu 10.

If Jurmey decides to purchase 20 units of candies, how many units of chocolates can she purchase with the remaining budget?

[2]
