

MODEL ANSWERS
SECTION A (50 MARKS)

Question 1a)

[15 Marks]

1.	D	Semi-skilled labour
2.	D	Marginal Revenue.
3.	A	Increased wage rate with good infrastructure
4.	B	Excess supply
5.	D	rises due to excess demand of capital
6.	C	Current deposits.
7.	D	Future investment.
8.	A	economic growth.
9.	A	10%
10.	C	Saving increases with increase in interest rate and vice versa.
11.	C	Investment
12.	A	Tax evasion.
13.	A	To increase the regional disparities.
14.	D	Nu.4000 (Profit)
15.	A	Training nurses.

Question 1 b)

[5 Marks]

- i. Tertiary sector
- ii. Hoarding
- iii. Public
- iv. Increase
- v. Derived demand

Question 1 c)

[5 Marks]

1. False
2. True
3. False
4. True
5. False

Question 1 d)

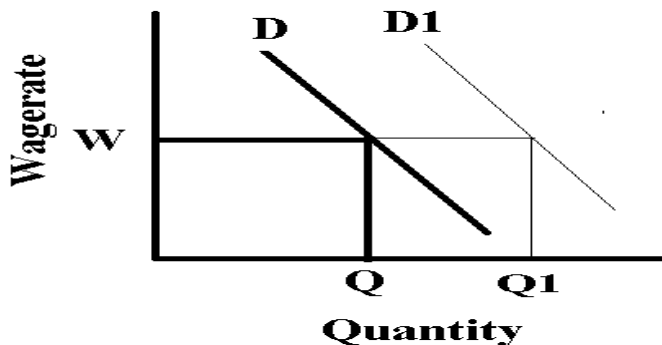
[5 Marks]

Column A		Column B	
i	Saving deposit account.	e	Nominal interest
ii	Construction of farm roads.	f	Capital expenditure
iii	Strategy for positive economic growth.	d	Economic diversification
iv	Responsibility, trust and relationship.	a	Business ethics
v	Machines, equipment and tools.	f	rent

Question 1 e)

[15 Marks]

- i. **How is ‘labour’ different from ‘labourer’?** [2]
 - Labour: The service provided by a worker.
 - Labourer: The person who works or provides the services.
- ii. **Lachi Maya runs a restaurant with two workers who prepare food for 25 heads every day. She received an order to prepare food for 100 heads.** [2]
With the help of a graph, explain how it will affect the demand for labour.



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- With the increase in demand for food, Lachi Maya will demand for more labours at a constant wage rate, thereby shifting the demand for labour to the right.

- iii. **Imagine that you have Nu.1 million and want to invest it immediately. Your uncle suggested to invest in real estate such as land but you would like to buy a vehicle. Being an economics student, where would you invest so that you get good returns. Justify? [2]**

Advantages	Vehicle
<ul style="list-style-type: none"> ➤ The price of the land keeps on increasing-Asset appreciation ➤ Land can be later used to build house, Rent on lease, cultivate etc. ➤ Low tax on land ➤ Low maintenance cost of land ➤ Vehicle is depreciating assets ➤ High maintenance cost of Vehicle 	<ul style="list-style-type: none"> ➤ It can be used for hiring purpose ➤ Provide taxi or public transport services, both which provide constant returns ➤ Cost of purchasing land is high ➤ Land has lower liquidity

- iv. **Explain the following terms: [2]**
- i. **Dignity of labour**
 - ii. **Consumption**
 - Dignity of labour: All types of job, manual or intellectual, are respectable. / All occupations are equally important and should not be considered superior or inferior to others.
 - Consumption: The act of using goods and services to satisfy current wants.
- v. **List down THREE opportunities provided by different agencies for improving the productivity of labour in Bhutan [3]**
- Arranging workshops/seminars.
 - Sending for effective trainings.
 - Allowing tour and vacations.
 - Qualification up gradation (Post Educations)
 - Give away financial incentives and other related responses may awarded with the marks.
- vi. **How do taxes help in promoting social welfare of the people? List down at least TWO reasons. [2]**
- The government invest huge revenue collected from the tax to provide free education,
 - Adequate health care facilities,
 - Peace and safety road network
 - Clean and continues water supply and to ensure vibrant security.
 - Moreover, to mend laws and policies for the future betterment.
 - Creates exciting job opportunities for the young generations and other citizens.
- vii. **Suppose the banks increases the rate of interest from 12% to 14% on borrowing. Write each consequences of this on: [2]**
- i. **Investment**
 - ii. **Economy**
 - Investment: With increase in interest rate on borrowing the investment will decline/ get slimmer.
 - Economy: It would bring unfair repercussion causing decline in various economic activities due to barriers on borrowing as the interest rate is high. It would result to halt numerous functioning activities and initiatives.

viii. Represent the following information in a bar graph.

[2]

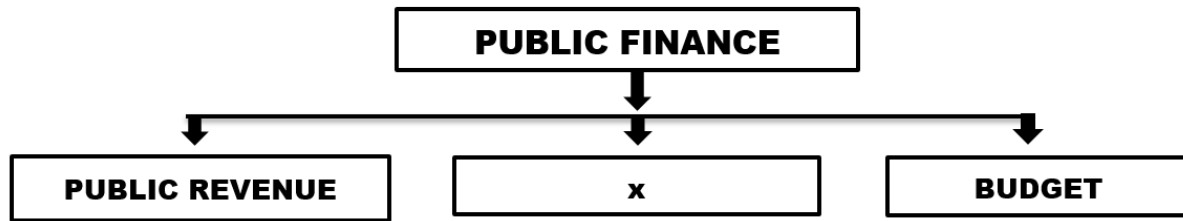
Shares of sectors to GDP (%)			
Year	Primary sectors	Secondary sector	Tertiary sector
2019	15%	40%	45%
2020	25%	35%	40%
2021	20%	40%	40%

ix. You are appointed as a chief executive officer of a company of Mega poultry firm. The company is infested with the constant clashes among the workers leading to low productivity and turnover.

Mention TWO methods that you would adopt to minimize the differences among the workers. [2]

- Instil the sense of dignity of labour all the workers are equally respectable and important
- Facilitate social interaction through informal meetings, losar celebrations, team lunch, get together etc.
- develop work place policy
- respond quickly and effectively to the complains of inappropriate
- Punishment
- Provide equal opportunities/trainings/workshops/seminars

x. Study the following figure.



Identify and define the component X [1]

- Public Expenditure: is the spending made by the government on provision of public goods and services.

- SECTION B (50 MARKS)

- ANSWER ANY FIVE QUESTIONS

Question 2. [10]

a) Explain the following terms;

i. Economic diversification [1]

ii. Disposable income [1]

- Economic Diversification: Process of shifting an economy from a single income source towards multiple sources from a growing range of sectors and market.
- Disposable income: the amount of money that is available to invest, save or spend after the payment of taxes and other social security schemes.

b) Do you think it is necessary for the government to increase its expenditure? Justify with TWO reasons. [2]

- Yes,
- It brings more developmental activities
- Creates more job opportunities.
- Generate adequate amenities and makes peoples live comfortable. (Any other Ans's)
- Or NO, (any related points favouring no should be awarded with the marks accordingly)

c) What are the possible causes of rising house rents for dwellers of Tsirangtoe? List TWO causes and measures to curb the apparent issues. [2]

- Limited housing.
- Overcrowding of people in Tsirangtoe areas.
- Rural urban migration effect.
- Shift in luxury living.

d) State any TWO importance of public goods. [2]

- it benefits the mass, Improve living standard.
- it increases social welfare, Non- excludable, Increase happiness, Non-rival
- it promotes economic growth and development.
- it uplifts the general quality of life.
- it uplifts the general quality of life and helps to reduce regional disparities

e) **The share of primary sector to GDP is less compared to secondary and tertiary sector. Justify?** [2]

- Shift in sector activities from primary to secondary and tertiary sector activities.
- Adhering with subsistence farming
- Absence of farm mechanization.
- Limitations/ barriers from expanding primary sectors activities.
- Slim investment funds allotted compared to other sectors.

Question 3. [10]

a) **Nado owns a shoe factory. When there is one worker, 5 pair of shoes are produced per day. When there are two workers, 9 pairs of shoes are produced per day. The shoes are sold at Nu 500 per pair.**

i. **Calculate the Marginal Product and MRP.** [2]

ii. **If addition of one more worker generates negative marginal returns, how many shoes do you think the factory can produce?** [2]

Worker	Total Shoes	Marginal Product	Marginal Revenue Product
0	0	-	
1	5	5	2500
2	9	4	2000
3	8(any answer which give negative MP)	-1	-500

iii. **How can Nado improve the productivity of his 3rd worker? State TWO ways.** [2]

- By providing:
- Trainings
- Seminars
- Workshops
- Education
- positive reinforcement
- additional incentives
- working environment

b) **Should taxes be made compulsory? Give THREE justifications.** [3]

- Yes,
- Source of revenue
- To create public goods and to meet administrative cost
- Sense of social responsibility
- All goods have some price to pay so minimum price have to be levied for use of goods
- Contribution to the government for providing social and protection.
- Helps to minimize income inequality
- Helps in economic development/growth
- No,

- Burden to the people
- Direct taxes will decrease disposable income of an individual and organisations or demotivate individuals as a part of their hard earned income is taken as tax
- Direct taxes are levied before tax, which decreases the profit of an organisation, and indirect taxes are on goods, which increases the price of the goods.
- Most of the people do not know that they are paying indirect taxes, therefore it does not arouse public consciousness.
- Increase the purchasing power
- Increase in saving.

c) **Give TWO examples of Public sector activities.** [1]

- Construction of road
- Construction of bridges
- Generating electricity
- Providing irrigation through dams
- Providing health and education

Question 4. [10]

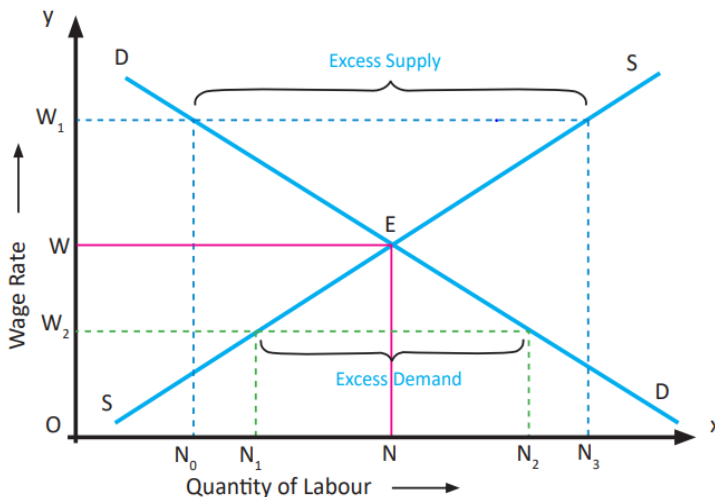
a) **Mention TWO reasons why interest is paid?** [2]

- Lending involves abstinence
- Lending money is risky business
- Money loses its value over the time.

b) **How direct tax maintains its distinctiveness from indirect tax? Explain with an example each.** [2]

- Direct Tax: The tax normally imposed on the income of the tax payer, therefore, the burden of tax is borne by the same tax payer/ person. E.g. PIT, BIT & CIT.

c) **With the help of a diagram, explain the change in equilibrium wage rate due to increase in demand for goods and services.** [3]



- Demand and supply curves intersect at point E, where the equilibrium wage is OW and equilibrium quantity of labour is ON. At this point of intersection, the quantity demanded for labour is equal to the quantity of labour supplied. Hence point 'E' is known as equilibrium point. Any deviation from the equilibrium point 'E', results in disequilibrium in the demand and supply of labour. For instance, any point above 'E', say

OW1, indicates excess supply of labour and this situation gradually lowers the wage rate. On the other hand, any point below 'E', say OW2, indicates excess demand, and this situation gradually increases the wage rate.

d) **Profit should not be the main objective of any business. A business person should be mindful of business ethics. Why do you think business ethics is important while doing business?** [2]

- In real Life situation, however, profit shouldn't be the only motive of any business. A business person should be mindful of integrity and the need to uphold the national, social and cultural values.

E.g.

- Healthy relation enables smooth functioning of activity.
- Trust and reliability pushes up the work process and progress
- Responsibility and behaviour portrays encouragement in the work force.

e) **Explain the term 'Laissez faire'** [1]

- leaving things to take their own course or without governments interfering in various economic activities.

Question 5. [10]

a) **What are the benefits of paying taxes?** [2]

- Increase government's revenue.
- Increases governments investments
- Narrows the wealth gap amongst citizens.
- Brings/ create harmonious society
- Improves the wellbeing of people

b) **Define Public finance and explain any TWO components?** [2]

- Public finance refers to the revenue (income) and expenditure of the government.
- Components of Public Finance;
- **Public Revenue:** it refers to the income of the government generated from different sources. It is used to finance the government activities.
- **Public Expenditure:** The spending made by the government on provision of public goods and services.

c) **'As the Covid-19 hits the entire world economy devastatingly, Bhutan too is not an exception, when it comes to operation of economic activities'. Suppose you are one of the proprietors of construction companies, how would you retain the existing labour force and encourage newer labour to join your construction site?** [2]

- Hiking/ increasing the wage rate
- Initiating fringe benefits and financial incentives.
- Creating temporary housing facilities.
- Covering life insurance till their end contract term.

(Any other relevant points)

d) **How do you think the tax burden is shifted to the consumers in indirect tax? Explain in your own words.** [2]

- Indirect tax is imposed on the goods and services. The burden of tax is initially borne by the tax payer but ultimately transferred to the consumers. They include it in MRP/price of goods/commodities.

e) **Mention TWO ways, other than increasing the interest rate that you can adopt to encourage people to save.** [2]

- Financial literacy

- Increasing the income through creating employment opportunities.

Question 6.

[10]

a) **Tourism industry is one of the highest revenue contributors to the government. What measures can the government take to improve the industry and enhance its services?** [2]

- Promoting brand Bhutan.
- Allocating huge budget in tourism sector.
- Encouraging local tourism.
- Providing financial assistance/ facilities to various tour operator, hotelier and relevant agents.
- Mending of tourist sites, initiating beautification at various tourist hubs.
- Encouraging the traditional, local producers.

b) **Narayan completed class 12 and enrolled in one of the private colleges in Bhutan to study BBA. He took a loan from BDBL at 7% interest. The college fees amounted to Nu 200,000 for three years.**

i. **If the bank compound interest annually, how much do you think he will have to pay back after 3 years?** [2]

$$A = P \left(1 + \frac{R}{100} \right)^{NT} \quad \text{or} \quad A = P \left(1 + \frac{R}{N} \right)^{NT} \quad \dots\dots[0.5]$$

$$= A = 200000 \left(1 + \frac{7}{100} \right)^3 \quad \dots \quad A = 200000(1+0.07/1)^3 \dots\dots\dots [0.5]$$

$$= 200000 \times 1.225043 \dots\dots\dots [0.5]$$

$$= 245008.6 \text{ or } 245009 \dots\dots\dots [0.5]$$

ii. **How much do you think he needs to pay every month in order to repay the amount borrowed within 3 years?** [1]

$$\frac{245008.6}{36} = 6805.8 \text{ or } 6806 \text{ per month}$$

iii. **How would the change in interest rate affect you?** [2]

- Higher the interest rate more the saving
- Higher the interest rate decrease in investment.

c) **As per Asian Development Report, Bhutan's GDP growth is forecasted at -3.4% in 2021. Why? Mention THREE reasons.** [3]

- Reduced construction activities
- Drop in tourism and hospitality industry
- Reduced consumption expenditure/fall in demand for goods and services
- Reduced public expenditure
- Shortage of labors
- Due to Covid/pandemic
- Affected trade activities

Question 7.

[10]

a) **Public expenditure in Bhutan is increasing over the years due to the developmental activities of the government. What are the some of the recent developmental activities that are undertaken by the Royal Government of Bhutan?** [2]

- Construction of farm roads.
- Road widening and maintenance.
- Construction of additional school buildings. (Any other)

b) **Describe any TWO importance of budget?** [2]

- Act as a mirror of the governments performance
- Financial transparency and accountability.
- Proper allocation of resources.
- Frame work which guides the implementation, assessments, monitoring and evaluation of government programs to ensure sound management.
- Provides financial status of the government in detail

c) **Distinguish Current expenditure from Capital expenditure with an example each?** [2]

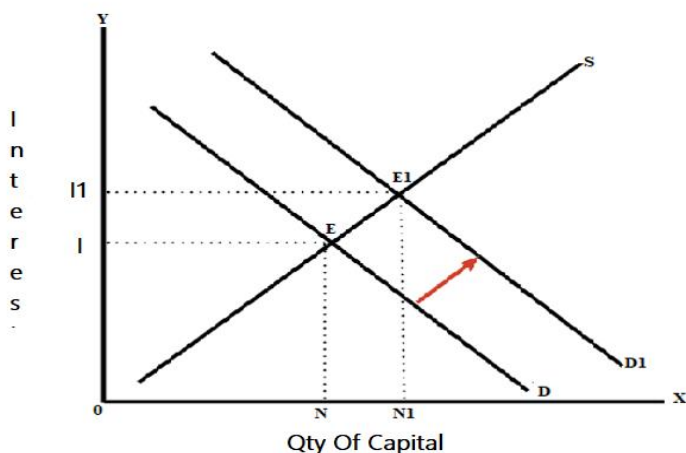
- Current expenditure: Government spending on regular functioning of government departments, maintenance and provision of services. E.g. Salaries of Civil servants.
- Capital expenditure: Spending on creation of capital assets like construction of school buildings.

d) **Study the information in the table**

Interest rate (%)	Demand for capital (Nu. in '000)	Supply of capital (Nu in '000)
10	100	100

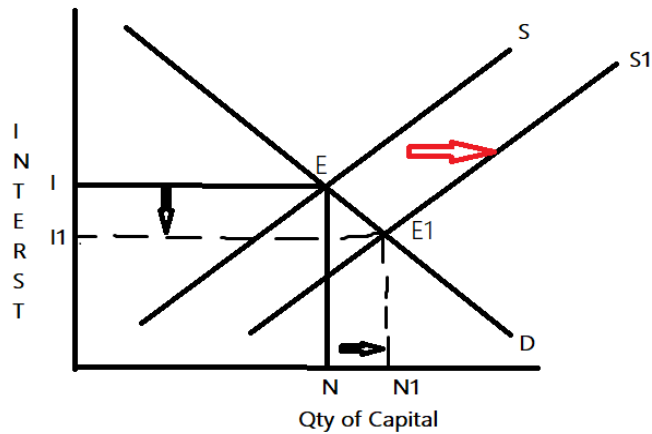
With the help of a diagram, explain the effect on interest rate if

i. **Demand for capital is more than supply of capital.** [1]



- Supply remaining constant, when there is increase in demand for capital, it leads to increase in the equilibrium interest rate and equilibrium quantity of capital

ii. **Supply of capital is more than demand for capital.** [1]



- Demand remaining constant, when there is increase in supply of capital, it leads to decrease in the equilibrium interest rate and increase in equilibrium quantity of capital.
- e) **Foreign grants and external borrowings are major sources of revenue for the developmental activities in Bhutan. However, it is not good for a country to depend excessively on such sources. Give TWO reasons.** [2]
- there are chances of political interferences from the donor countries
 - some grants and aids come with hidden agenda which would contravene our policies
 - excessive borrowing will push the country into debt trap.
 - the recipient country become liable to the donors and might become puppet
 - spillover effect