Set II

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Group A
Very Short Answer Questions

1. Define opportunity cost

→ The second best alternative or option that has been sacrificed by a consumer or a person or a producer while taking a decision is called opportunity cost.
Eg:- When the teacher decides to stay in class is sacrificed visit to Nepal, etc.

2. Define equilibrium

→ In economics, equilibrium is that point where market demand and market supply intersect to eachother.
MR = MC is the condition of equilibrium of firm

3. State the expansionary monetary policy

→ The monetary policy which is used by the central bank to stimulate the economic activities is called expansionary monetary policy.

4 State the objectives of public borrowing.

→ They are :-

i To meet budget deficit
ii To meet war expense
iii To control economic depression
iv To control inflation

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5. What are the indicators of human development.
→ They are:-
i Economic Indicators
ii Educational Indicators
iii Demographic Indicators
iv Health Indicators
v Basic need Indicators

6. State the major objectives of SAFTA.
→ They are:-
i To promote fair competition in the free trade area.
ii To eliminate barriers of trade among member nations.

7. What are the objectives of current Fifteenth five year plan of Nepal?
→

Clarify the quality education according to UN

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9. State the major limitations of statistics
→

10. Define secondary data
→

11. Calculate value of a from following data if AM is 16

Items: 10 12 a 18 26

Sol;

Given data: 10 12 a 18 26

Sum of data: 66+a

n: 5

We know

$$AM = \frac{\text{sum of data}}{\text{no. of data}}$$

or, $$16 = \frac{66+a}{5}$$

$$\therefore a = 14$$

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Group B
Short Answer Questions

12. Explain about the shift of production possibility curve.

→ Meaning:-
Production Possibility curve is a graphical illustration showing all the possible combinations of goods that an economy can produce with full employment of available resources within the specific time period. The movement of entire PPC from its initial position to inward and outward position due to various reasons is called shift in PPC. The production possibilities of a nation changes over time due to change in quantity and quality of productive resources, such as natural resources, human resources, capital resources and technology.

Causes of outward shift in PPC
i Due to technological progress
ii Due to improvement in productivity of labor force
iii There may be availability of new raw materials in large quantity.
iv Due to increases in the size of population
v Due to increases in rate of capital formation

Causes of Inward shift in PPC

i Due to technological backwardness
ii Due to reduction in productivity of labour
iii force.
iv There may be scarcity of new raw materials
v Due to decrease in size of population.
vi Due to decrease in rate of capital formation

Graphical Presentation

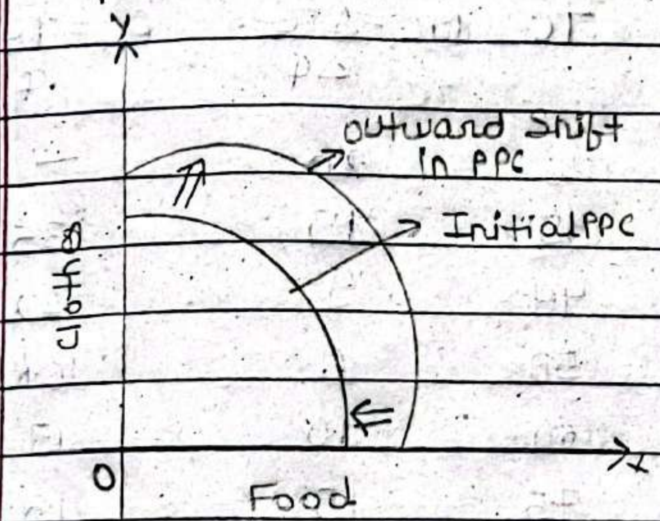

Fig:- Outward shift in PPC

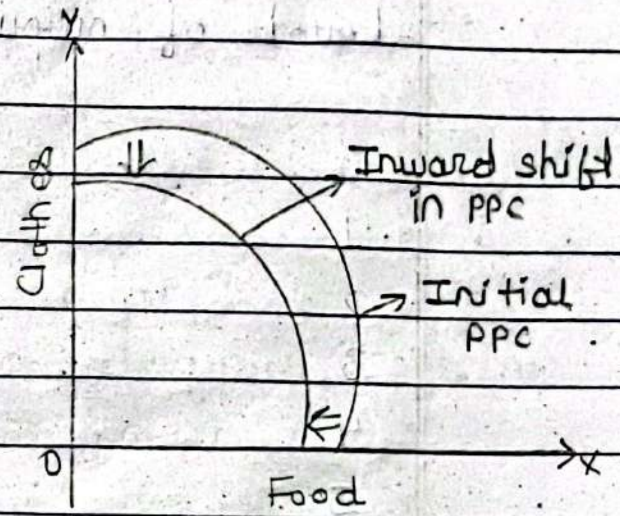

Fig:- Inward Shift in PPC

In the above figure, food and clothes are shown on x-axis and y-axis respectively. As shown in Fig(i), AB is the initial PPC. If there is increase in production capacity of a nation due to improvement in technology, The PPC shifts towards right (CD).

Fig (ii), shows inward shift in PPC. Here, initial PPC is EF. If there is backwardness in technology, then the PPC shift inwards [GH].

Conclusion : If the PPC shifts towards right, it shows economic growth and If PPC shifts towards left, it shows economic backwardness.

13. Consider the following table and answer the questions given below.

a. calculation of AC and MC

Level of output	TC	$MC = \frac{\Delta TC}{\Delta Q}$	$AC = \frac{TC}{Q}$
0	20	—	—
1	35	15	35
2	44	9	22
3	50	6	16.67
4	60	10	15
5	75	15	15
6	110	35	18.33

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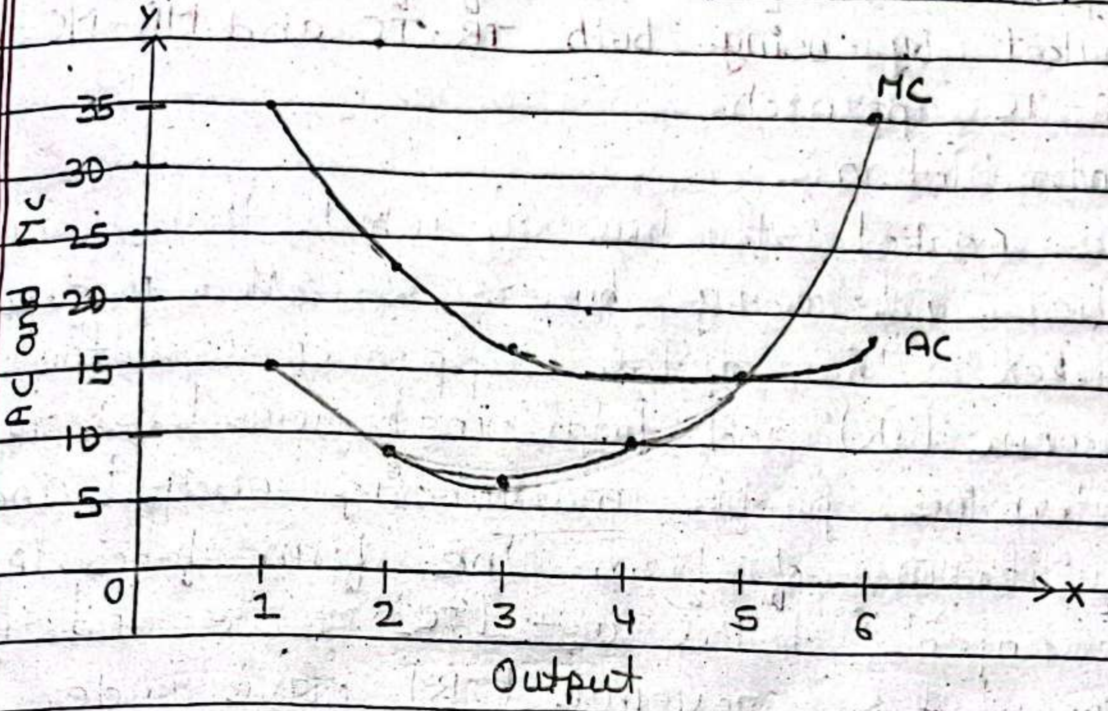
b. Graphical Presentation of AC and MC curves



c. Relationship between AC and MC.

- Both AC and MC are derived from TC since $AC = \frac{TC}{Q}$ and $MC = \frac{\Delta TC}{\Delta Q}$
- At first MC after that AC reach at their minimum point
- MC is not constant at minimum. So, it is roughly U-shaped. AC is constant at minimum. So, it is U shaped.
- MC always intersects AC at its minimum point.
- When MC is below then it pulls AC towards down and AC falls. When MC is above then, it pulls AC towards up and AC rises.

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14. Explain the equilibrium of firm under monopoly market by using both TR-TC and MR-MC approach

→ (TR-TC approach)

Introduction:

The market structure in which there is single seller and many buyers is called monopoly market. The total approach uses the total revenue (TR) and total cost curve (TC) to determine profit maximizing output and equilibrium of firm. The firm faces inverse U-shaped total cost (TC) curve and straight line total revenue (TR) curve under Monopoly market. We know that objective of firm is profit maximization. Profit is difference between TR and TC.

Symbolically,

Profit (π) = Total Revenue (TR) - Total Cost (TC)

Explanation:

The firm maximizes the profit when the positive difference between TR and TC is the highest.

The three possibilities from the profit function are:-

→ When $TR > TC$, then $\pi > 0$ i.e there is excess profit.

→ When $TR = TC$, then $\pi = 0$ i.e there is normal profit

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→ When $TR < TC$, then $\pi < 0$ i.e. there is loss

Graphical Presentation:

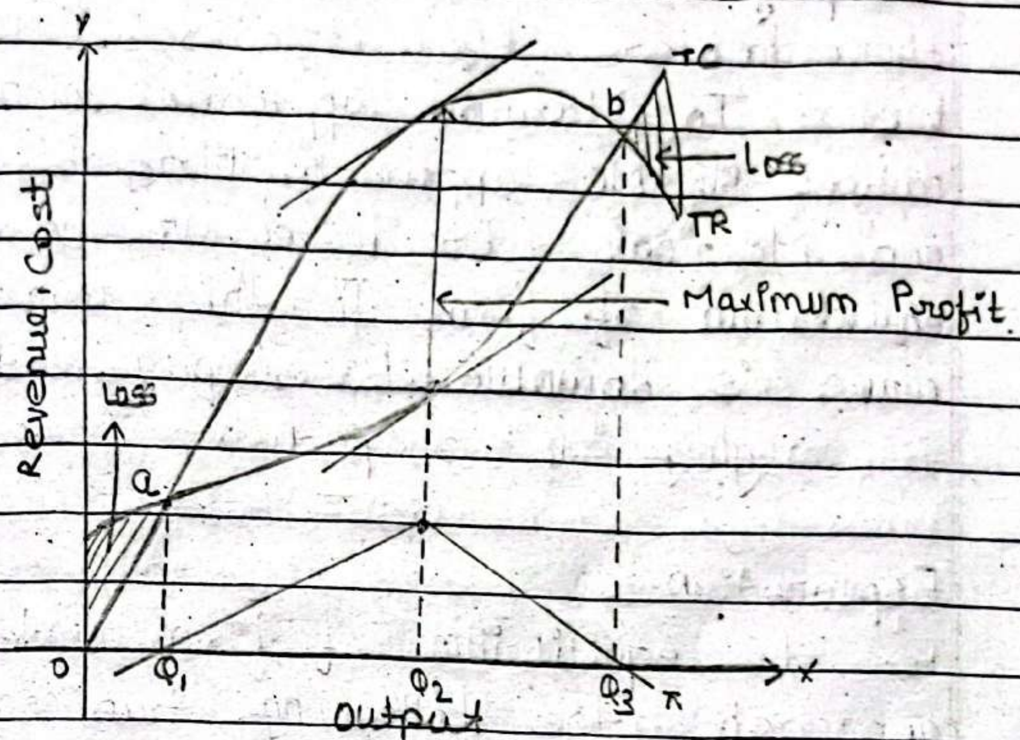

Fig:- TR-TC approach under Monopoly market

In the above figure, output is shown on x-axis and cost, revenue are shown on y-axis. The curves denoted by TR, TC, π and Total Revenue, Total cost curves and profit curve respectively. There is loss before Q_1 and after Q_3. There is profit between Q_1 and Q_3 level of output. But the profit is maximum at Q_2 level of output. So, the equilibrium level of output is Q_2.

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(MR- MC Approach)

Introduction:

Monopoly market is the market structure characterized by single seller and multiple buyers. In Marginal approach which is also called MR=MC approach, Marginal Revenue and Marginal Cost curves are used to show equilibrium of firm. In this market, the MR curve is downward sloping and MC curve is roughly "U" shaped.

Explanation:-

For the equilibrium of firm under Marginal approach, the following two conditions must be fulfilled

i First order condition

The Marginal Revenue must be equal to Marginal Cost i.e MR = MC

ii Second order condition

The MR curve must be rising at the point of equilibrium

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Graphical Presentation

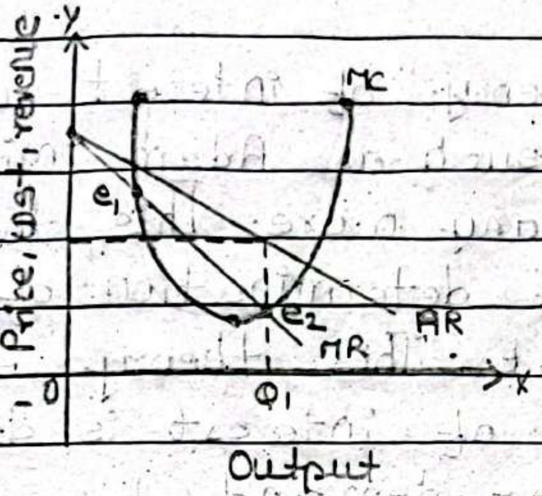

Fig : MR = MC approach under Monopoly market

In the above figure, output and price, cost and revenue are shown on x-axis and y-axis respectively. The curves denoted by MR, AR and MC are Marginal Revenue, Average Revenue and Marginal cost curves respectively. MR and MC are equal at points e_1 and e_2 i.e the first order condition is fulfilled at both points but the second order condition is fulfilled only at point e_2 because MC is falling in e_1 and rising from e_2. So, the equilibrium point is e_2, equilibrium output is Q_1 and equilibrium price is P_1.

Conclusion: In this way, MR=MC approach gives both equilibrium price and output which was lacking in TR-TC approach.

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15. Explain the classical theory of interest.

→ Introduction:-

The classical theory of interest was developed by economists such as Adam Smith, David Ricardo and many more. This theory explains the process of determination of equilibrium rate of interest. This theory says that equilibrium rate of interest is determined by two real forces - demand for capital and supply of capital. Demand for capital comes for investment and supply of capital comes for saving.

Explanation

i Demand for capital

The investors and business people demand capital to invest in business. There is inverse relation between demand for capital and rate of interest.

ii Supply of capital

Supply of capital comes from public deposit. There is direct relation between rate of interest and supply of capital.

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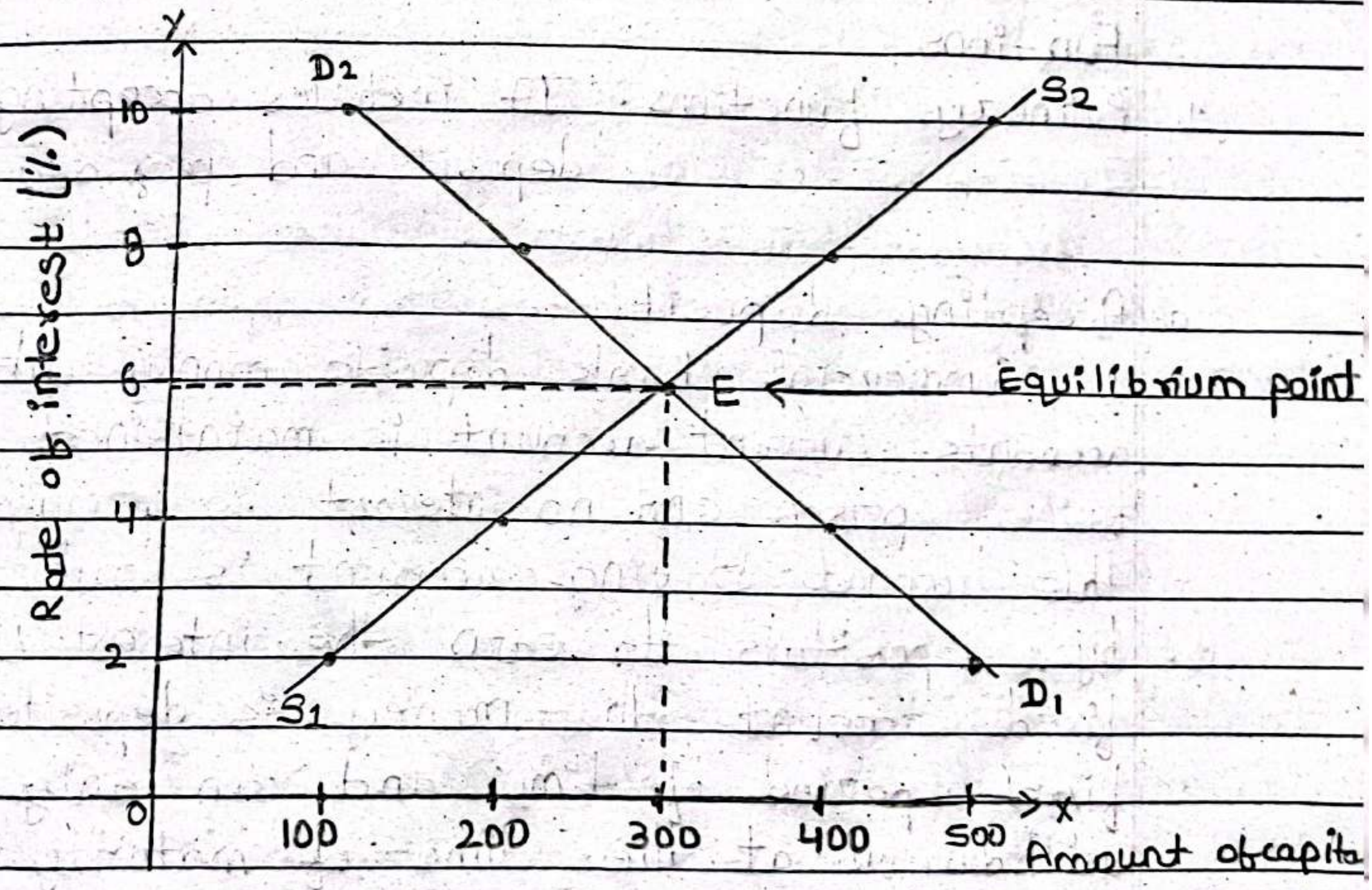
Mathematical Presentation

Rate of interest (%)	Demand for capital (Rs)	Supply of capital (Rs)	Condition
2	500	100	D>S
4	400	200	
6	300	300	D=S Equilibrium
8	200	400	S>D
10	100	500	

Graphical Presentation



In the above figure, amount of capital and rate of interest is shown on x-axis and y-axis respectively. The curve DD_1 and SS_1 represent Demand and Supply curve and E is equilibrium point where demand & supply intersect.

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16. Describe the functions of commercial bank.

→ Introduction:

Those financial institutions which are established inorder to earn profit by doing banking business are called commercial bank. Its major function is to accept deposit and provide loan. By the end of 2078 BS, there are alltogether 26 commercial bank in Nepal.

Functions

1. Primary functions: It includes accepting deposit and providing loan

a. Accepting deposit

Commercial bank deposits money under three accounts. Current account is maintained by business person and no interest is provided on this account. Saving account is maintained by depositors to earn the interest. Under fixed account, the money is deposited for fixed period of time and can only be withdrawn at the time of maturity.

b. Providing loan

Commercial banks provides loan under following headings. Cash credits are provided against the collateral of gold, government securities. General credit are provided against the security of land, house etc. It provides facility of withdrawing more than deposited amount in ones account. It can also provide loan by calling. Different bills like bills of exchange, promissory notes etc are used for loan

2. Secondary function

Todays commercial banks collects various credit instruments like cheque, draft etc and make payment Commercial banks receives income from customers and makes payment of bills. The commercial bank purchase and sell securities like shares, bond etc on the request of customers Commercial banks earn more by remittance money being supplied from one place to another.

3. Contingent function

Commercial banks provides locker facility for valuable items like gold, silver etc. The commercial banks issues various types of credit instruments like - bank drafts, credit card etc. It follows the direction of central bank while buying and selling foreign currencies.

Conclusion: Besides above point, credit creation is another unique function.

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17. Suggest some remedial measures to minimize the problem of poverty in Nepal.

→ Introduction :- Poverty is a situation in which people are deprived of basic needs, basic right and basic opportunities for their livelihood. In Nepal, 16.7% of total population is living below the poverty line. There is high rate of poverty in Nepal. Poverty should be minimized by adopting different remedial measures.

Remedies :-

a. Investment in human capital
Adequate investment in human capital also plays a key role in long-term poverty reduction. Thus, investment should be made in different sectors like clean drinking water, health, sanitation etc.

b. Development of rural infrastructure
The development of rural infrastructure increases the opportunities and productivity of rural people. Adequate transportation, irrigation, electricity etc increase economic opportunity and reduce poverty.

c. Creation of employment opportunities
Unemployment is the main cause of poverty

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So, we must focus on labour intensive industrial expansion which creates more employment opportunity. Priority should be given to small scale Industries which creates employment in off season as well.

d. Food pricing and distribution policy

Government should decide the price of every goods produced by farmers. Subsidy should be provided to farmers. Government should purchase food from farmers in season and distribute in off season.

e. Skill development programs and trainings

Training should be provided to people like skilled and semiskilled and trained skilled. Entrepreneurial programs, skill development and other types of training like plumber, welder etc should be organized to enhance the income level.

Conclusion :- The above explained points are some remedial measures to minimize poverty in Nepal. Beside these points, participatory development activities, targeted programs for poor, women empowerment are other measures to minimize poverty.

18. Discuss about the vision, objectives and strategies of current fifteenth five year plan of Nepal.

19. Calculate the price index number from following by using Paasche's formula and interpret the result

→

Solution,
calculation of price index number by Paasche's formula

Commodity	P_0	Q_0	P_1	Q_1	P_1Q_1	P_0Q_1
E	15	50	20	60	1200	900
F	10	30	12	40	480	400
G	12	40	15	45	675	540
H	25	20	30	25	750	625
I	20	25	35	30	1050	600
Total					$\Sigma P_1Q_1 =$ 4155	$\Sigma P_0Q_1 =$ 3065

We know that

$$P_{01}(P) = \frac{\Sigma P_1 Q_1}{\Sigma P_0 Q_1} \times 100$$

$$= \frac{4155}{3065} \times 100$$

$$= 135.56$$

Interpretation: $P_{01}(P)$ shows that price has increased by $(135.56 - 100) = 35.56$ in current year in the comparison of base years

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Group C
Long Answer Questions

20. How equilibrium price and output are determined under perfect competition market in short run? Explain.

→ Introduction :
The market structure characterized by large number of buyers and sellers is known as perfect competition market. All the sellers sell homogeneous products in the market. In this market, industry determines the price with the help of market forces - market demand and supply. Firms follows the same price. So, firms are called price takers. Eg:- Agriculture market is considered as perfect competition market upto some extent. However it is not available in real world.

Features of Perfect Competition :
i Large number of buyers and sellers in the market.
ii All the firm sells the homogeneous product.
iii There is free entry and exit of firms
iv Firms are called price takers
v There is free mobility of factors of production

Price and output determination:

In perfect competition market, industry determines the equilibrium price and output with the help of market forces - demand and supply. All the firms follows the same price.

Equilibrium of firm:

There are two approaches to explain the equilibrium of firm. Total approach (TR-TC) can show only equilibrium output and cannot show the equilibrium price. So, here we explain only Marginal approach which gives both equilibrium price and output in detail.

For the equilibrium of firm under Marginal approach, following two conditions must be fulfilled.

→ First order condition:

Marginal Revenue (MR) = Marginal cost (MC)

→ Second order condition:

MC must cut MR from below at the point of equilibrium.

Short run Equilibrium of firm:

Due to the short time period available to the firm and different cost structure, the firm in short run, may be equilibrium with:

→ Excess profit if $AR > AC$,
→ Normal Profit if $AR = AC$ and
→ loss if $AC > AR$

Graphical Presentation of short-run equilibrium:

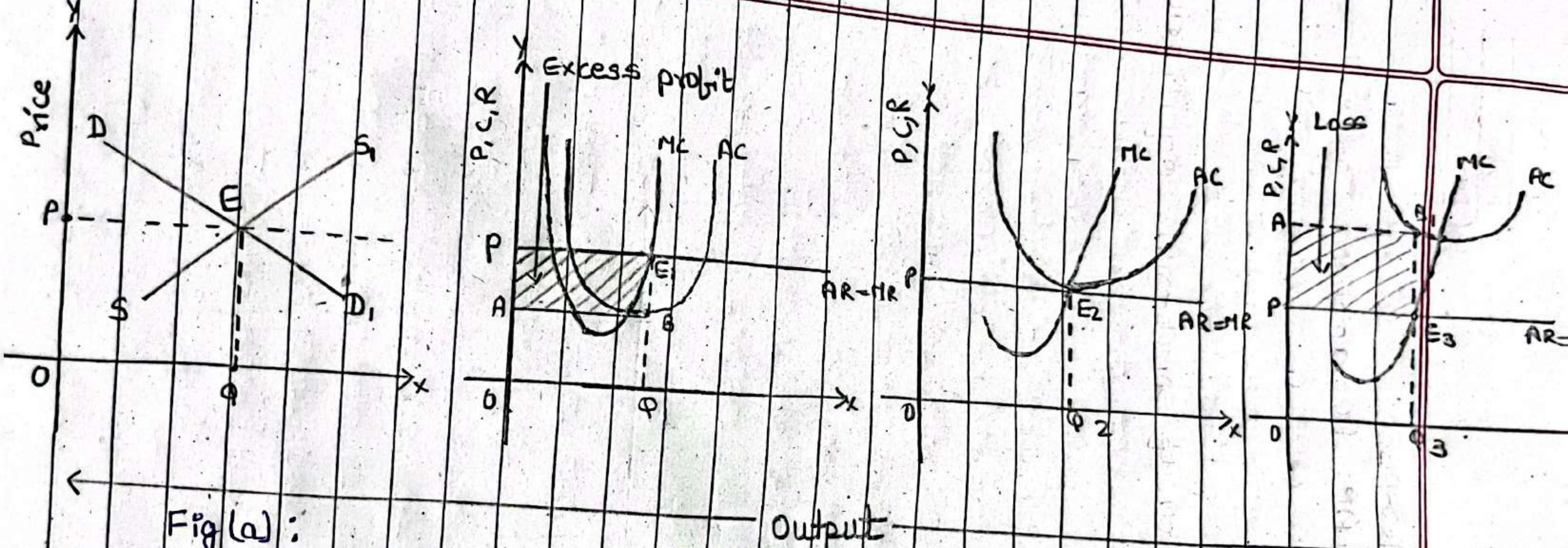

Fig (a):
Equilibrium of industry under Perfect competition

Fig (b):
Short run equilibrium of firm with excess profit

Fig (c):
Short run equilibrium of firm with normal profit

Fig (d):
Short run equilibrium of firm with loss

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In the above figure, Figure (a) shows Industry equilibrium under Perfect Competition. The demand and supply curves are intersecting at point 'E' which is called equilibrium point. The equilibrium price and output are P and Q respectively.

Fig (b) shows, short run equilibrium of firm with super normal profit. The equilibrium point is 'E_1' and equilibrium output is 'Q_1'.
From the figure,
Per unit revenue (AR) = E_1Q_1
Per unit cost (AC) = BQ_1
Per unit profit = E_1B.
Total excess profit = shaded area $PABE_1$

Fig (c) shows short run equilibrium of firm with normal profit due to $AR = AC = E_2Q_2$. The equilibrium point is E_2 and equilibrium output is Q_2.

Fig (d) shows short run equilibrium of firm with loss. The equilibrium point is E_3 and equilibrium output is Q_3.
From the figure,
Per unit revenue (AR) = E_3Q_3
Per unit cost (AC) = B_1Q_3
Per unit loss = B_1E_3.
Total loss = shaded area PAB_1E_3

Conclusion: In the long run, the firms under Perfect Competition earn just normal profit. The long run equilibrium is simible with figure ⓐ and figure ⓒ with flatter AC and MC with LAC and LMC.

21. Define indirect tax. Explain its merits and demerits.

→ Introduction :- The tax which is imposed on one person or an institution but its burden can be shifted to another person is called indirect tax. Unlike direct tax, burden of indirect tax can be shifted to other person. For example :- Custom duty, Vat, Sales tax, Excise duty etc.

Merits :-

i Convenient to the tax payers

While purchasing goods and service, indirect tax is paid by the consumer. The tax amount is added to price of good. So, the consumer shouldn't keep record and do accounting. Unknowingly they pay tax so, it is convenient system of tax payment to tax payers.

ii Impossible to tax payment

Unlike direct tax, it is almost impossible to avoid indirect tax as it is added to price of goods and services. Thus, the consumer who purchase good, should pay tax. The consumer didn't notice they paid tax. So, they cannot avoid tax payment.

iii. Broad base of tax collection

Indirect tax is imposed on goods and services and is included in their prices. So, indirect tax can be collected from all types of consumable goods and service and consumer who consume it. Indirect tax is paid by both rich and poor. Therefore indirect tax has broader base of collection in comparison to direct tax.

iv. Progressive in nature

Different consumer consume different types of goods. Some consume basic, some consume luxurious goods. Government impose high rate of tax on luxurious and expensive goods which are consumed by rich people. Similarly, low rate of tax is imposed on basic and necessary good. So, indirect tax is also progressive in nature.

Demerits :-

i Uneconomic in nature

Government should spend more resources and manpower to collect indirect tax. Establishment of customs offices, VAT, department, sales tax and excise duty department, requires initially higher investment and manpower. So, indirect tax is expensive tax system for government.

ii Uncertainty in revenue

When government impose indirect tax on goods and services, it becomes expensive. As a result consumer start consuming cheaper substitute goods. In such situation, the revenue collecting cant be certain as per government. Moreover, decrease or increase in demand and supply also differ the revenue collection.

iii Unproductive tax system.

When indirect tax is imposed on goods and services, it becomes expensive. Consumer expend majority of income to purchase goods and services which reduce the saving and investment. When saving and investment is reduced, then capital formation decrease

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in economy. Thus, this system is unproductive in nature.

iv. lack of feeling of tax payment
The direct tax payer are certified to the tax payment. But; indirect tax is paid by consumer unknowingly. Consumer cannot feel tax payment. They feel they purchased goods and services so there is absence of feeling of tax payment which somewhere decrease the accountability.

Conclusion : One of the major source of government revenue is indirect tax. As all people of nation is bound to pay indirect tax.

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22. Describe the various importance of foreign trade in Nepal.

→ Introduction: The transaction of goods and services between two or more than two countries is called foreign trade. It is also known as international trade or cross border business. Two important component of foreign trade are import and export. The value of import and export shows the trade performance of a country. Before 1956 AD, Nepals foreign trade was mainly concentrated with China (95%) and India (5%). Nepal started foreign trade with overseas countries only after 1956 AD.

Importance of foreign trade

i Development of industries

Through international trade, the overall demand of goods and services rises. So, to meet the demand, the nation develops and establishes various firms and industries. Even foreign trade encourage to export the specialized product of a country. For eg:- Industrial revolution occur in Great Britain very early due to Foreign trade.

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ii Better utilization of resources
While doing foreign trade, every nation focus in the production of those goods in which they have a comparative advantage. Since the demand for goods and services rises due to international customers. So, to meet the demand, the nation should utilize the available resources in best possible way. In this way, foreign trade plays vital role in utilization of available resources. Eg:- Nepal's water resources can be utilized at maximum capacity because of foreign trade.

iii Increase in employment opportunities
Foreign trade opens the door for multinational companies and promote industrial revolution. When more companies are operated, it provides mass employment opportunities. For eg:- China is a suitable place of multinational companies and unemployment rate of China is less. Thus, foreign trade helps to increase employment opportunity

iv Source of earning foreign currency
Foreign trade promotes international

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transaction. It expand the export opportunities and helps to earn foreign currency. Recently deficit of foreign currency has been spotted in every country after COVID-19. lockdown. Now, foreign trade, overseas transaction plays a vital role to earn foreign currency. For eg:- Oil of Dubai are been exported due to facility of foreign trade and they are earning huge amount of foreign currency. Nepal also can export hydropower in international market and even foreign currency.

v Reduction. in poverty

Due to foreign trade, countries will utilize resources, develope industries, provide employment and people will get income and poverty will be reduced. Foreign and international trade opens International Labour market. Labour of Nepal can get job opportunities in any part of world and earn income. Thus, foreign trade even helps to reduce poverty level in Nepal.

vi Benefits to consumers

Foreign trade facilitates wide range of choice to the consumer. They can use Imported as well as international product in the international market They can enjoy their right to choice. Even due to foreign trade, market competition increase and monopoly pricing is broken down and goods are available in reasonable price. Eg:- If a consumer doesn't like the goods of China, can use goods of Japan.

vii Good relation with foreign countries

International trade helps to build up good relation with foreign countries. It builds people to people relation. Having good relation creates platform for a country to improve trade and efficiency, capacity, economic condition. For eg:- India and China have politically different ideology but are bounded by trade and exchange of goods

viii Increase living standard

Foreign trade provide resource utilization platform, develope industries. It provides employment and reduce poverty. Than the living standard will be improved automatically. Even foreign trade begins various aid problem which helps to improve the living standard of Nepalese people. For eg:-

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living standard of Nepalese before expansion of foreign trade can be compared with the condition of now.

Conclusion
Beside this, economic development, cultural exchange, advancement in science and technology, etc are also the importance of foreign trade.