Set-III

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GROUP A

Very Short Answer Questions

1. Define production possibility curve.

→ The graphical representation showing all the possible combinations of goods and services that an economy can produce with full employment of available resources with in specific time period is called production possibility curve.

2. List the four features of perfect competition market.

→ They are :-

i Large number of buyers and sellers

ii Firms are known as price takes

iii All firms sell the homogeneous products

iv There is free entry and free exit of the firm.

3. Define contractionary monetary policy.

→ The policy that is used by central bank to reduce the quantity of money supply in the economy is called contractionary monetary policy. It is also called tight monetary policy.

4. Define budget
→ Budget means the document that contains the estimate of government expenditure and inco[me] for one fiscal year. There are surplus budget, balance budget and deficit budget

5. Distinguish between firm and industry.
→ They are :-

Firm	Industry
Firm is one small business unit.	Industry includes many such firms
The equilibrium point of firm is determined by MR=MC.	The equilibrium point of industry is determine[d] by equality between D=

6. Define BOT and BOP.
→ BOT : Balance of Trade is the difference between a country's imports and its exports for a given time period. Transaction relate[d] to goods are included in BOT.

BOP : The difference between the inflow and outflow of foreign exchange is called Balance of payment. Transaction related to transfers, goods and services are included in BOP.

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

8. Define sustainable development.
→ The development that meets the need of present generation without compromising future generation to meet their need is called sustainable development. It is called long lasting development.

9. List the major sources of secondary data.
→ They are :-

10. What is the use of statistics in economics?
→

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11. Calculate the value of median from following data.

Marks : 13 17 19 23 25 27

Here,

$n = 6$

We know that,

$$Md = \left(\frac{n+1}{2}\right)^{th} \text{ term}$$

$$= \frac{6+1}{2} = 3.5$$

$$= \left(\frac{19+23}{2}\right) \text{ term}$$

$$= 21$$

Group B

Short Answer Questions

12. Explain about the merits of division of labour

→ Introduction:

The concept of division of labour was originally introduced by Adam Smith in 17th century. Division of labour means dividing a whole work into different units and sub units according to the skills of the Labourers. For eg:- Division of labour in book printing industry.

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Advantages :-

i Right person at right place

As people are hetrogeneous in nature, they have different knowledge, skills, education and experience. So, under this system different people are assigned different level / type of work according to their capacity. So, appropriate task should be given to appropriate person.

Eg:- A teacher specilized in physics should teach physics, not english.

ii Increase in production

Under division of labour, appropriate workers are placed in appropriate place. Due to this efficiency and creativity of doing same work in different ways emerges which increases productivity of labour. Skilled person have high production capacity.

iii Saving of time

Under division of labour, a single work is provided out of the whole work which saves the time of the labourer as he/she is not busy all the time. For eg:- a worker is assigned to bind the pages of book. So, he/she can save certain time.

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iv Production of quality of goods

Division of Labour ensure good quality of products. As a single work is assigned to a right person, he / she can carry out the work in the best possible manner and good quality can be produced.

v Possibility of increase in invention

If a worker is regularly engaged in the same job for long period of time, he becomes specialized in such field. The workers becomes an expert and capable to perform the same work by different ways.

Conclusion :

The above mentioned points are the advantage of division of Labour. Beside these points, possibility of quality goods and services, development of skill is also some points.

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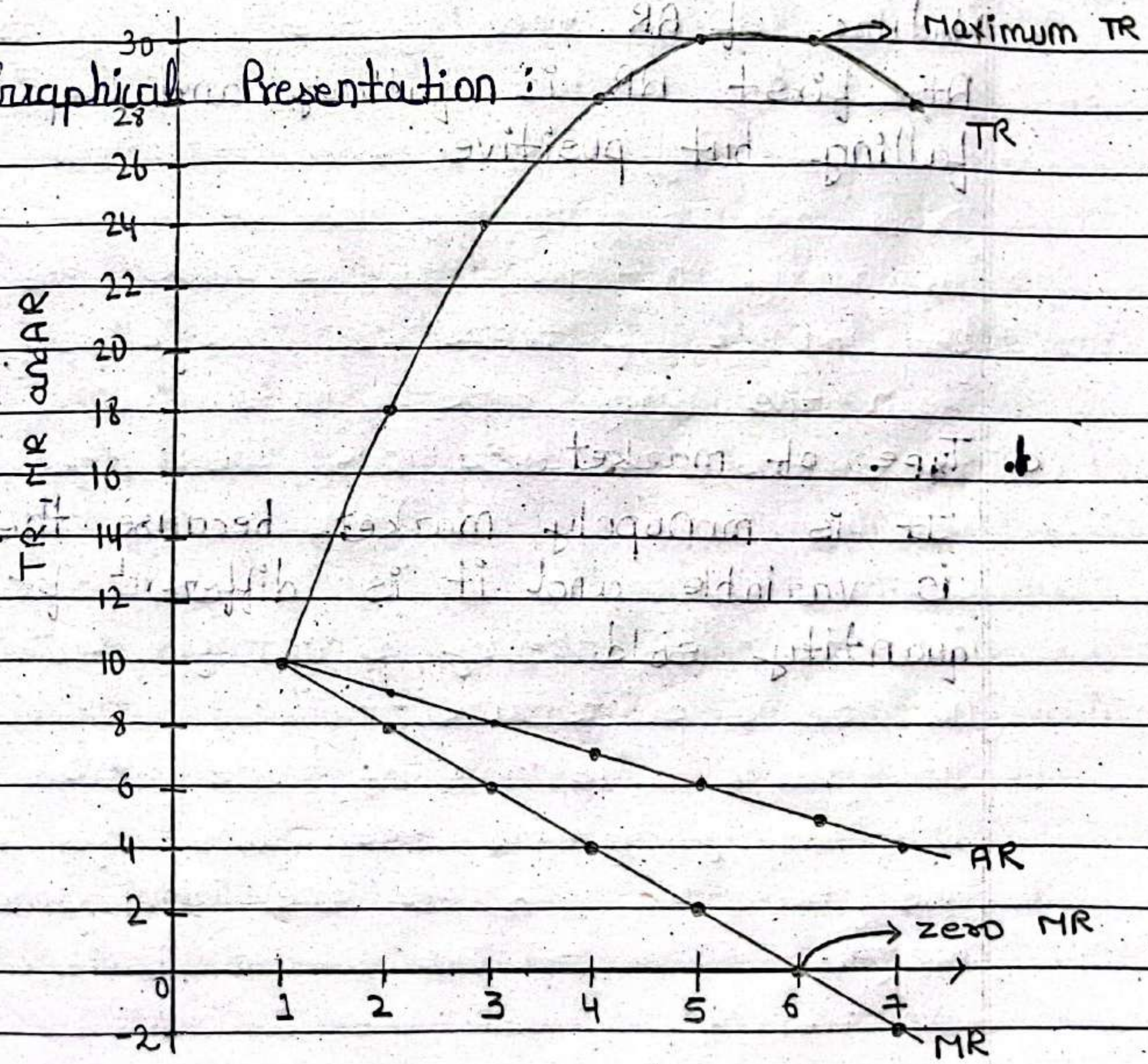
13. Consider the following table and answer the questions given below.

Quantity selling (Q)	Per unit (P)	TR	MR	AR
1	10	10	10	10
2	9	18	8	9
3	8	24	6	8
4	7	28	4	7
5	6	30	2	6
6	5	30	0	5
7	4	28	-2	4

b. Graphical Presentation :



c Nature of TR curve
At first, TR is increasing at increasing rate then TR becomes maximum and starts to fall.

Nature of MR curve
At first MR is falling but positive. Then MR becomes zero at certain quantity sold. At the end MR becomes negative.

Nature of AR
At first AR is falling and keeps on falling but positive.

d. Type of market
It is monopoly market because the price is variable and it is different for every quantity sold.

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

→ Answer in set I (Q no. 14)

15. Explain the subsistence theory of wage.

→ The subsistence theory of wage was originally introduced by French economist Quesnay. It was further developed by classical economist such as Adam Smith, David Ricardo, etc. This theory explains the nature and process of determination of wage rate.

Meaning of subsistence wage

This theory says that wage in the long run tends to subsistence level. The subsistence level of wage refers to that wage rate which is necessary for the workers just to survive. It helps them to continue their race without increase or decrease in labor supply. It is just equal to cost of living of workers.

Explanation :-

Subsistence theory of wage says that wage rate remains around the subsistence

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level in the long run. But, in short run. If wage rate is fixed at more than subsistence level, it encourages the workers to pass luxurious life. As a result, workers marry with many wives and they have more children. Here, supply of Labour will increase due to increase in population. Given the demand for labour, if there is excess supply of labour the wage rate falls up to subsistence level.

On the other hand, if the wages given to labour is less than subsistence level, the worker suffer from hand to mouth problem. Now the supply of labour decreases due to many health problems. Given the demand for labour, if there is less supply of labour then the wage rate starts to increase up to subsistence level. Thus, the wage rate remains at the subsistence level.

Conclusion :- This theory is not free from criticism and some points are :-

i It ignores the role of trade union.
ii This theory ignores the demand for Labour.
iii This theory is called the iron law of wages.

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16. Describe the roles of banking system

→ Introduction: A bank is a financial institution that deals with money and credit. It accepts deposit of money from the public in different accounts, and provides loans to the needy person. In today's generation, we can't imagine life without banking system. so, a well developed banking system is becoming a necessary condition for the economic development of a nation.

Role of banking system in the economy

i Mobilization of saving

The main role of the bank is to mobilize the money. Bank accepts the saving money of public and utilize it as loan, overdraft, cash credit etc. Most of the money are used in a productive sector like industries, organizations, business etc where a bank can have greater return and provides the interest to the public who save money in the bank.

ii Capital formation

Banking system collects small saving from various part of an economy and mobilize it

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in business sector. This helps to increase more output which means more income and more income increases saving due to which more funds can be created for future investmen

iii Remittance of money
Bank helps to transfer the money from one place to another and from one country to another. Due to this, people are free from the risk of carrying cash. There are also the facilities of transferring money in the form of cheque, draft, credit cards, etc.

iv Employment opportunities
Banking system increases the economic activities and promote employment opportuniti by providing loans to businessman, farmers and entrepreneurs in different forms. Banks also helps by investing in various business sectors.

v Poverty alleviation
Bank provides loan to businessman. Business man invest those money and start a business. When a business is established, it creates employment opportunities. People are

employed and this automatically reduces poverty in nation.

Conclusion :- Beside above explained points to meet development expenditure of government, monetization of the economy, etc are the roles of banking system.

17 Suggest some remedial measures to solve the problems of foreign trade in Nepal.

→ Introduction :-

The transaction of goods and services between different countries is called international trade. Nepal started foreign trade with overseas country only after 1956 A.D. Nepal import more and export less. Nepal import luxurious goods and export semi finished goods, raw materials etc. The amount of export and import was Rs 7491 million and Rs 92424 million respectively. This shows that there is huge trade deficit. So, it should be minimized.

Remedial measures :-

i. Establishment of large scale industries
Nepal import chemical fertilizers, automobiles, textile etc. So, it should establish

sufficient companies and large scale industries in country. Agrobased industries, chemical fertilizer industries, etc should be developed in Nepal. The production of product by these large scale industries reduces the imports, on the other hand it will increase the export and finally helps to minimize trade deficit.

b. Controlling illegal trade between Nepal and India

Nepal is surrounded by India from three sides and China from North side. Due to open border with India, illegal trade takes place between two countries. So, Nepal government should give special focus to control illegal trade. This will increase the government revenue. Ultimately, it reduces the trade deficit.

c. Conducting research for exporting to new destination and new products.

Nepal import most luxurious and expensive commodities from more than 100 countries but export very few primary goods to a few countries. So research work should be conducted to identify new destinations for Nepalese goods. Moreover new product

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can be produced in the country to export.

d. Increase the productivity and types of products

The production capacity of Nepalese industries is very low, so the productivity should be increased by using modern method of production. Similarly policy should be introduced to increase the production of a number of different products. It's substitute, the import and reduce the trade deficit.

e. Managing sufficient amount of capital for investment

On the one side, rate of capital formation is low and on the other hand, available capital are used in unproductive sectors So, available capital should be used in productive sector. This will increase production as well as capital formation rate. Thus the trade deficit can be reduced upto some level.

Conclusion: Besides above explained points needs political stability, using alternative source of energy etc are the measures to solve problem of foreign trade.

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18. Discuss about the various causes of unemployment in Nepal.

→ Introduction:
Unemployment is a situation in which individuals are willing and able to work but unable to find a gainful employment. Unemployment is the situation of joblessness. It is major microeconomic issue for policy makers. There are various causes of unemployment explained below:-

Causes
a. Underutilization of natural resources
Underutilization of natural resources is one of the main cause of unemployment in developing and underdeveloped countries like Nepal. Nepal is rich in natural resources like forest, water and mineral but it is unable to utilize it. Due to this, it causes unemployment.

b. Advancement of technology
Due to advancement of technology, new machines are invented which replaces many workers. Due to advancement of such technology, workers loose their job as it is considered overstaffing.

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c. Entry of new workforce
Every year, 450000 people enter into the market but only few thousand of them get job. It is one of the causes for unemployment. Government is unable to provide employment opportunities to previous unemployed person.

d. Searching for higher wages
Many people remain unemployed in search of high wage rate because all workers cannot fulfill their basic needs from it. For eg:- Company offers Rs 5000 per month to worker, but he/she consider it as low wage rate and remains unemployed for searching further high wage rate job.

e. Lack of industrial development
Industrial sector provides employment opportunities to mass. But industrial development is lacking in Nepal due to which there are less employment opportunities. People cannot get employment in other sectors except agriculture. Industrial development is lacking due to lack of capital, technological progress, skilled manpower etc.

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

Commodity	P_0	Q_0	P_1	Q_1	P_1Q_0	P_0Q_0	P_1Q_1	P_0Q_1
E	15	50	20	60	1000	750	1200	900
F	10	30	12	40	360	300	480	400
G	12	40	15	45	600	480	675	540
H	25	20	30	25	600	500	750	625
I	20	25	25	30	625	5000	750	600
					ΣP_1Q_0	ΣP_0Q_0	ΣP_1Q_1	ΣP_0Q_1
					$=3185$	$=2530$	$=3855$	$=3065$

According to laspeyre,
We know that,

$$P_{01}(L) = \frac{\Sigma P_1 Q_0}{\Sigma P_0 Q_0} \times 100 = \frac{3185}{2530} \times 100 = 125.89$$

Interpretation: $P_{01}(L)$ show that price has increased by $(125.89 - 100) = 25.89\%$ in current year in the comparison of base year

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According to Pasche,
We know that,

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

$$= \frac{3855}{3065} \times 100$$

$$= 125.77$$

Interpretation : $P_{01}(P)$ shows that price has increased by $(125.77 - 100) = 25.77\%$ in current year in comparison of the base year.

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Group C
Long Answer Questions

20 Critically explain the Ricardian theory of rent

→ **Introduction :-**

A very famous theory on rent was developed by the classical economist David Ricardo to explain the process of determination of price of fixed factors, land. It is popularly known as Ricardian theory of rent. According to Ricardo, "Rent is that portion of the produce of earth (Land) which is paid to the landlord for the use of original and industructible power of soil".

Ricardo said that only land earns the rent. According to Ricardo, there are two concepts of rent. They are scarcity rent (rent arises due to fixed supply of land) and differential rent (which arises due to differences in productivity of land).

Assumptions :-

The assumptions of this theory are as follows :-

i Cultivation over new land starts from most fertile to less fertile land.
ii Marginal land or no rent land plays a vital role to determine the rent.
iii Rent can be obtained only from land.
iv Land differs in quality i.e interms of productivity.
v There exists perfect competition between landlords and tenants.

Explanation:
Ricardo presented an example of virgin inland to explain the process of determination of rent.

Grades of Land	Total product (MT)	Production of Marginal land	Amount of rent
A	8	2	8-2=6
B	6	2	4
C	4	2	2
D	2	2	0

The table shows four grade of land A, B, C, D and their respective output 8, 6, 4, 2. The rent paid by A is 6 and B is 4 and C is 2. Here D doesn't pay rent.

Graphical Presentation :

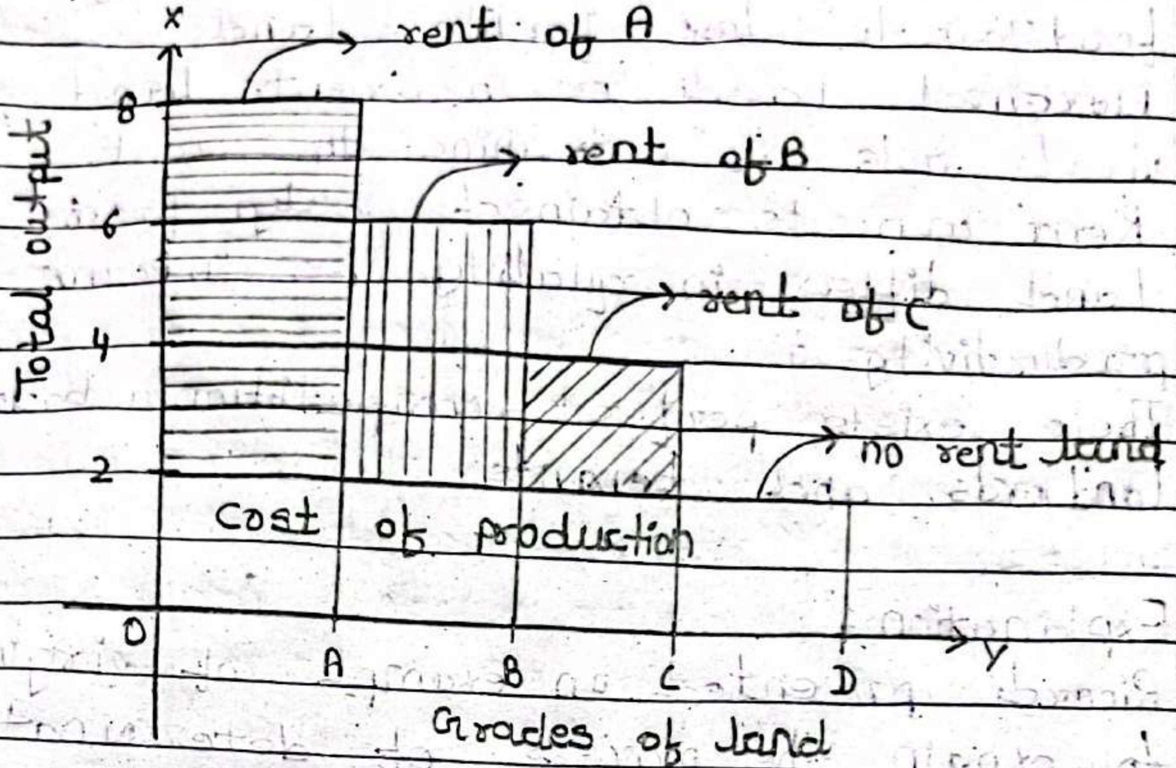

Fig :- Determination of Rent in Ricardian Theory
In the figure, Grades of land are shown on x-axis and production on Y-axis. The total product of each grades of land is No rent land. The rent paid by A, BC grade of Land are shown by the shaded area.

Criticism
a. Perfect competition is imaginary
This theory assume that there exists perfect competition between Landlord and teenant. But, critics pointed out that perfect competition market doesn't exist

in real world. On the other hand, it is impossible to get equal roles of landlord and teenant to determine the rent.

b. Grading of land before cultivation is very difficult
Ricardian theory of rent various grades of land for cultivation and to pay rent. But, critics pointed out that it is very difficult to divide the land into different grades before one round cultivation. So, grading of land can be done after cultivation and it is very difficult before cultivation.

c. land has alternative uses
Ricardian theory of rent assumes that there is only one use of land and its cultivation. However, we can see a number of uses of land in these days. For example :- Land is used for cultivation, housing, industries etc.

d. Rent arises from all factors of production.
This theory says that rent arises only from land. However, modern economist argue that rent is earned not only

by land but also by other factors of production: such as labour, capital, organisation whose supply is inelastic.

c. Wrong imagination of marginal or no rent land
This theory assumes the concept of no rent land which plays vital role to determine the rent. But critics said that all the land should pay rent. More fertile land pays more and vice versa. So, there is no any rent as marginal land.

Conclusion :-
Even after these criticism, it is still one of the famous theory of rent.

21. Define budget. Explain the process of budget formulation.

→ Meanings :-

The word " Budget " which means the french word " Bougette " which means leather bag. So, budget means the document that contains the estimate of government income and expenditure for one fiscal year. It includes- sources of government revenue, provision of tax for next fi. a year, source of government borrowing ; headings of expenditure. There are three types of budget. They are surplus budget, balance budget and deficit budget.

Process or steps of Budget formulation

1. Estimation of overall expenditure and revenue
2. Determination of priorities
3. Preparation & selection of new projects
4. Discussion
5. Preparation of final document
6. Authorization & implementation

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Explanation

a. Estimation of overall expenditure and revenue.
The first step of Budget formulation is the estimate of overall expenditure and possible income. The Budget unit of MOF provides budget form to all the ministry department which are filled and returned showing the estimated expenditure and income for one fiscal year. By considering the ceiling of "Resource committee" the estimate of expenditure and income is prepared.

b. Determination of priorities
Due to limited budget, the priorities are to be determined among the various sectors. The Budget unit determines the priorities depending upon past priorities and present need. Then, the highest priority sector makes more budget and least priority sector gets lowest amount of budget.

c. Preparation and selection of new projects
The budget unit of MOF selects and prepares the new project proposals from primary, secondary and tertiary sectors. The selected projects are submitted to

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National Planning Commission (NPC) for feasibility study. Finally the NPC provides the permission for economically, socially and environmentally viable projects.

d. Discussion

This round table discussion is organized by budget unit of MOF. The discussion take place among representative of budget unit, members of NPC, secretaries of ministries, professors of Economics, representatives of donor agencies, NGO, INGO, private sectors and so on. They give their valueable suggestions which would to a big guideline to make it more efficient while preparing budget.

e. Preparation of final document

The final budget document is prepared one month before the beginning of new fiscal year. The finance minister gives the budget speech on 15th Jestha, in joint session of parliament. Then, the discussion on the budget takes place in the parliament and it should be approved and passed by majority of members of parliament.

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f. Authorization and Implementation :
The legislature authorizes the budget document. After the authorization, the budget is disbursed in four month basis to all the ministries, departments and local offices in the headings of regular expenditure and development expenditure.

Conclusion :
Once the central government prepares and approves the budget, then only the provincial governments and local governments also formulate the budget in similar manner in Nepal.

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22. Describe the various problems faced by Nepalese foreign trade.

→ Introduction :-

The transaction of goods and services between two or more countries is called foreign trade. Before 1956 AD, Nepalese foreign trade was with China (95%) and India (5%) but after 1956 AD, Nepal started International trade with overseas countries. We import luxurious goods in rapidly higher quantity and export raw or semi-finished goods in relatively lower quantity. So, there is always trade deficit in Nepal. There are a number of problem behind it.

Problems :-

i Geographical location

Nepal is a landlocked country with high hills and mountain. The transit facilities have to depend upon India totally. We most depend upon India while we export and import from third countries. Past records have shown that there comes many problem while using transit facilities. Indian government gives first priority to their product, charge high rate of tax and many more which discourage foreign trade.

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ii Lack of capital
Development of export oriented industries determines the foreign trade growth. Sufficient capital investment is required to provide credit for export based industries. But the capital market of Nepal is still unable to supply sufficient amount of credit. Due to lack of capital there donot occur industrial revolution neither foreign trade develops.

iii Low quality production
In foreign market, there is high competition for production of quality goods. Nepal cannot produce quality product due to slow development of industrial sector. Moreover the labour intensive technology decrease the quality of product. Day by day the Nepalese product is loosing international market and foreign difficult is seen.

iv High cost of production
Due to the use of old technology, inefficient equipment, labour intensive technology, cost of production in Nepal is very high. As a result, Nepalese product cannot compete with foreign goods in terms of price, quality and quantity.

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v Export of primary goods
Nepalese industry are producing and exporting primary goods such as animal skin, tea, pulses etc. And Nepal is importing highly costly luxurious goods which make the trade deficit. This is a problem for foreign trade in Nepal.

vi Political Instability
There is political instability in Nepal. Before the implementation of laws made by previous government, new government comes in power and political instability is occuring. Nepal has adopted trade policy, which is liberal, which has opened market for foreign goods. This discourage the domestic products. Moreover, foreign investor donot come to invest because of political instability.

vii Tough competition with foreign goods
Nepalese people demand other countries goods. Nepal implemented free trade policy. Foreign goods is highly dominate the Nepalese product infront of price, quality and quantity. As a result, Nepalese products are loosing position in International as

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well as national market. So, there is increase in import and decrease in export. So, trade deficit is seen.

viii Concentrated with few goods and few countries
Nepal export only few goods such as woolen carpets, and few agrobased product but import rest of all. But that export is also declining due to fall in quality and child labour. Similarly, Nepal's foreign trade is concentrated in few countries such as India, USA and Germany for export. All this result in foreign trade deficit. It is a big problem.

Conclusion:-
Nepal should focus to improve ADP and BOT. Domestic goods and services should be promoted.