Set I

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Group A
Very Short Answer Question

1. Define scarcity and choice.

→ The situation in which wants and needs are in excess of available resources is known as scarcity.
Eg:- scarcity of mobile in market.
The act of fulfilling any wants or needs by economic agent out of many is called choice.

2. Distinguish between firm and industry.

→

	Firm	Industry
i	Firm is one small business unit.	Industry includes many such firms.
ii	Firms are called price takers because they follow the price.	Industry is called price makers because it determines the price.
iii	The equilibrium point of firm is determined by MR = MC	The equilibrium point of industry is determined by equality between D = S

3. Define monetary policy.

→ The macroeconomic policy of the government which is implemented by central bank to manage

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the money supply to achieve predetermined goals is called monetary policy.

4. State the source of public borrowing.

→ The sources of public borrowing are :-

i Internal Borrowing
- Market Borrowing
- Non-market Borrowing

ii External Borrowing
- Bilateral Borrowing
- Multilateral Borrowing

5. Define human development index.

→ Human Development index is an index which measures the national socio-economic development based on life expectancy at birth, literacy rate and per capita income. The HDI of Nepal is 0.602

6. State the major objectives of WTO.

→ The major objectives of WTO are:-

i To preserve and promote environmental resources
ii To achieve sustainable economic development.
iii To simplify and reduce the custom duties

7. Define development planning.

→

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8. Define decent work according to UN
→

9. State the major functions of statistics
→ The major functions of statistics are :-

10. Define primary data
→

11. From the following hypothetical data calculate average marks

Sub	English	Nepali	Account	Economics	Math	Computer
Mark	14	12	18	17	20	15

Sol:

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

$$= \frac{14+12+18+17+20+15}{6} = 16$$

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Group B
Short Answer Questions

12. Describe the concept of production possibility curve.

→ Introduction: Production Possibility curve (PPC) is a graphical representation showing all the possible combinations of goods and services that an economy can produce with full employment of available resources within specific time period. The alternative names of PPC are Production Possibility Frontier or Production Transformation Curve. In real life, an economy produces various goods and services. But, for our simplicity, we here assume that the economy is producing only two goods.

Assumption of PPC

i Economy is producing only two goods - say food and clothes.

ii There is full employment of available resources in the economy.

iii Production technology is given and constant.

iv Time period is given

v Factors of productions are given and fixed.

Explanation :- The concept of PPC is further explained with the help of table and figure.

Table : Production Possibility Schedule

Combinations	Foods (Units)	Clothes (Units)	Opportunity cost
A	0	15	–
B	1	14	1
C	2	12	2
D	3	9	3
E	4	5	4
F	5	0	5

Graphical Presentation of PPC

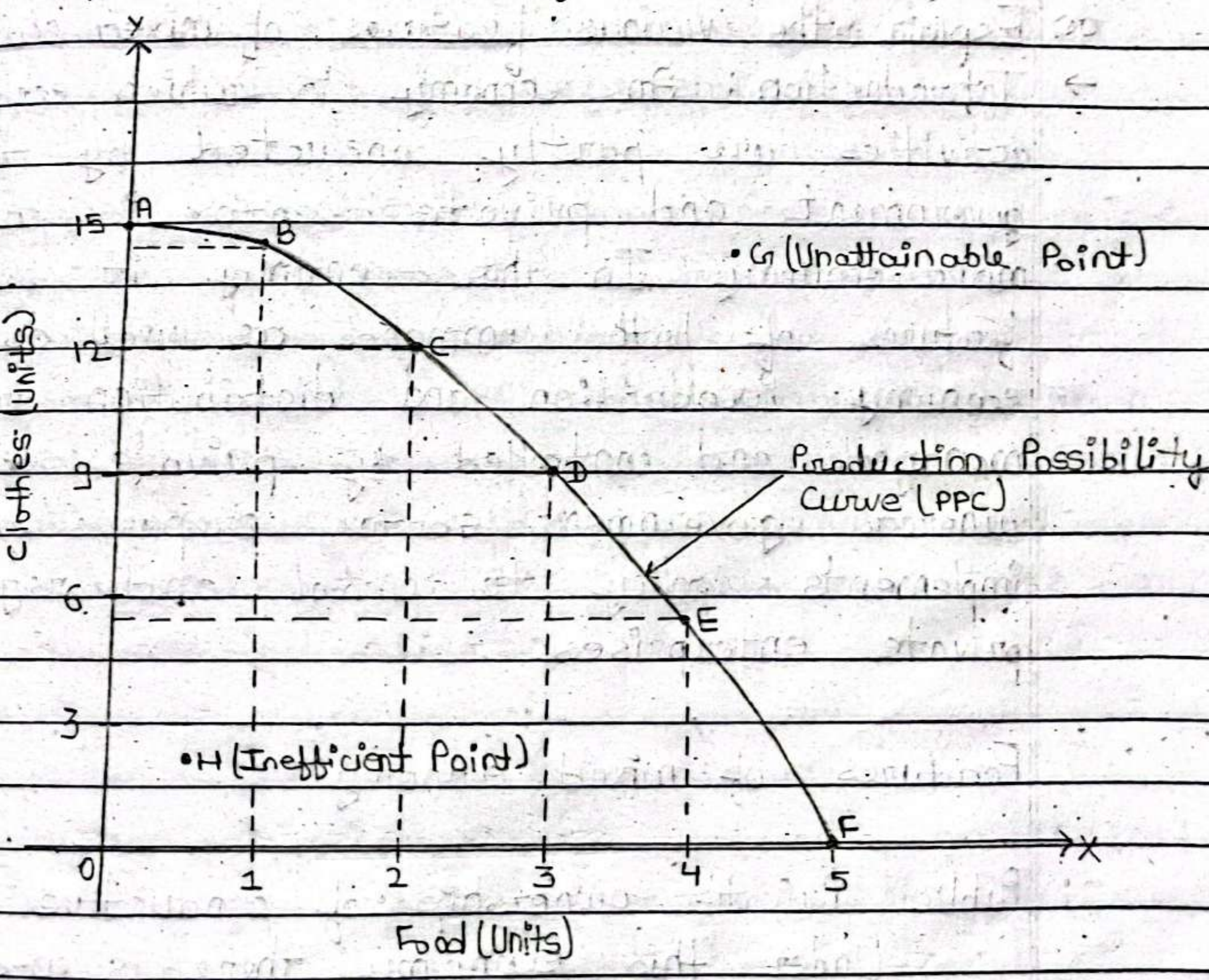

Fig : Production Possibility curve

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In the above figure, Food and Clothes are shown on x-axis and y-axis respectively. When we plot the given combination of Food and Clothes, we get the points: A, B, C, D, E and F. When these points are joined, we get a curve; which is called PPC. Production is possible on every points of PPC.

Conclusion: The PPC is expanding outwards (non-linear) due to increasing opportunity cost.

Q: Explain the various features of mixed economy.

→ Introduction: An economy in which economic activities are partly conducted by the government and private sector is called mixed economy. In this economy, it contains features of both command as well as market economy. Production and distribution are managed and controlled by private sectors whereas government sector prepares and implements policy to control and regulate private enterprises.

Features of mixed economy.

i. Public Private ownership of productive resource
Under this economy, there is co-existence

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of public and private sector. In public sector defense, basic industries are setup. On other hand, in private sector all the consumer goods industries, agriculture, small-scale industries are developed.

ii Consumers freedom

Under mixed economy, there is full freedom of choice of occupation, although consumer does not get complete liberty but at the same time government can regulate prices in public interest through public distribution system.

iii Better allocation of resources by public-private partnership

Private Public Partnership is the better and distinct feature of mixed economy. Government and private sectors go together for economic activities. Infrastructure are constructed by the government and business activities are started by private sectors.

iv Limited government intervention

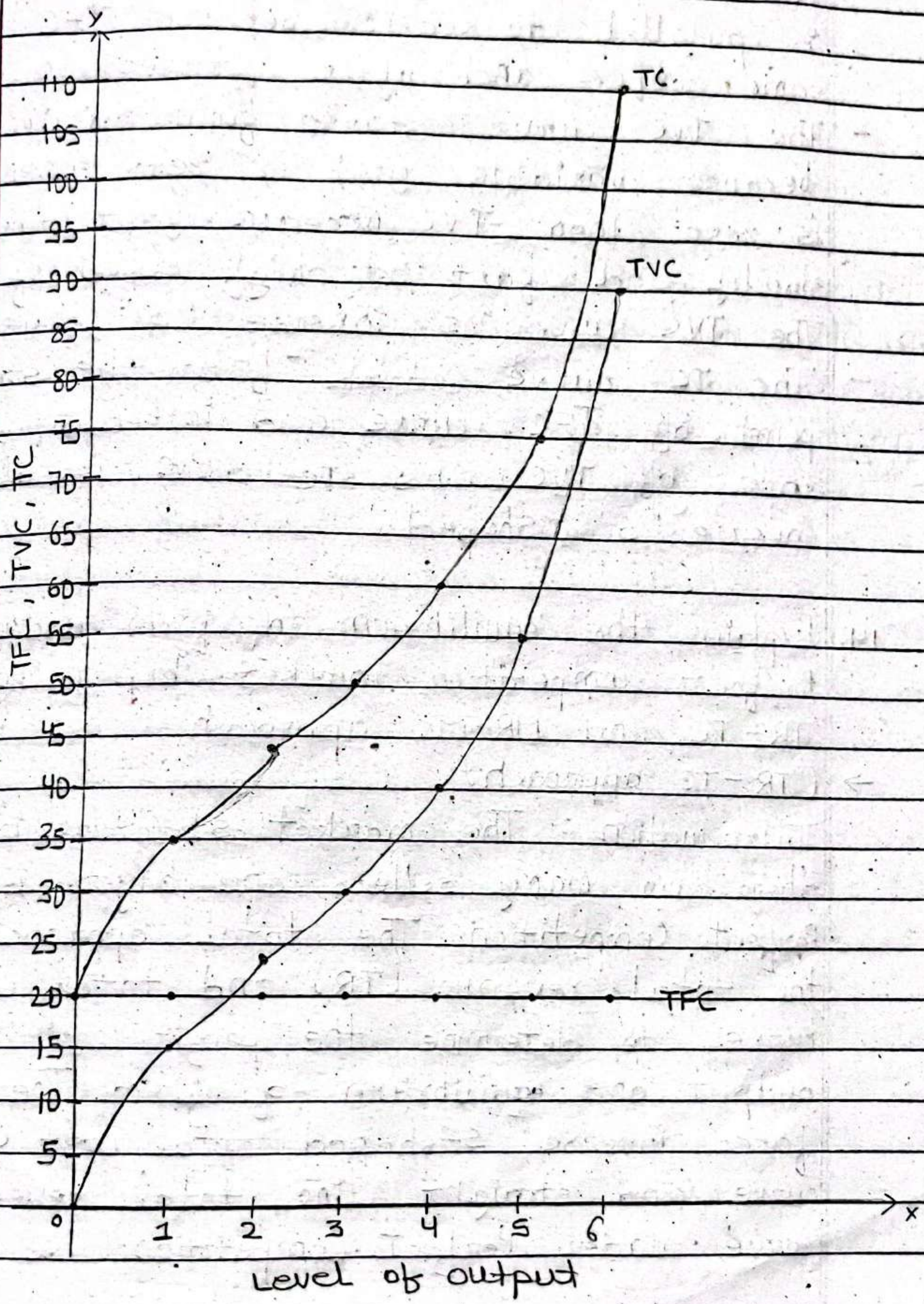
In mixed economy, there is no perfect freedom for private sectors like in market economy. Similarly, there is no perfect government intervention.

13 Consider the following table and answer the questions given below

a. calculation of TC

Level of output	TFC	TVC	TC = TFC + TVC
0	20	0	20
1	20	15	35
2	20	24	44
3	20	30	50
4	20	40	60
5	20	55	75
6	20	90	110

b. Graphical Presentation of TFC, TVC and TC curves.



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c. Nature of TFC, TVC and TC curves
- The TFC curve starts from Y-axis and is parallel to x-axis because TFC is same before and after production.
- The TVC curve starts from origin because variable cost is zero when output is zero. Then TVC increases fast, then slowly and fast at high level of output. The TVC curve is inverse "S" shaped.
- The TC curve starts from the starting point of TFC curve and increases by the rate of TVC. The TC curve is also inverse "S" shaped.

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

→ (TR-TC approach)

Introduction: The market structure in which there are many sellers and buyers is called Perfect Competition. The total approach uses the total revenue (TR) and total cost (TC) curves to determine the profit maximizing output and equilibrium of firm. The firm faces inverse S-shaped total cost (TC) curve and straight line total revenue (TR) curve under Perfect Competition. We know that, the objective of firm is profit maximization. Profit is the difference between TR and TC.

Symbolically,

Profit (π) = Total Revenue - Total cost

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 and

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

Graphical Presentation

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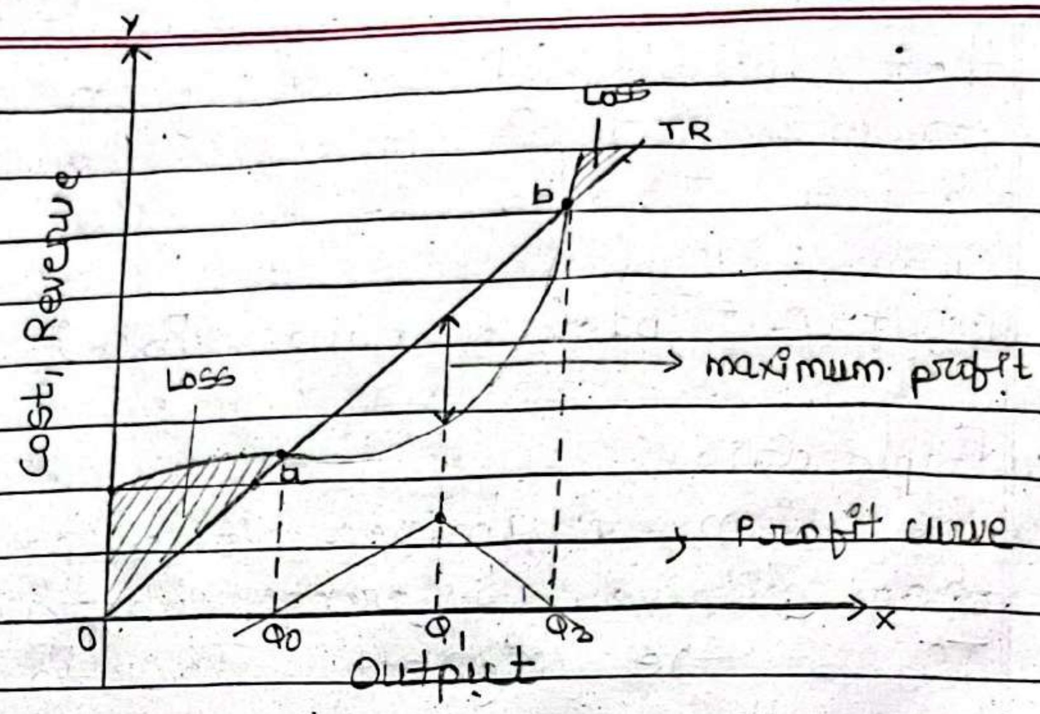

In the above figure, output is shown on x-axis, cost and revenue are shown on y-axis. The curves denoted by TR, TC and π are total revenue, total cost and profit curves respectively. There is loss before Q_0 and after Q_2. There is profit between Q_0 and Q_2 level of output. But the profit is maximum at Q_1 level of output. So, the equilibrium level of output is Q_1.

Conclusion: The TR and TC approach gives the equilibrium output but it cannot show the equilibrium price.

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→ (MR-MC approach)

Introduction : Perfect Competition is the market structure characterized by large number of buyers and sellers. In Marginal approach, which is also called MR=MC approach, Marginal Revenue and Marginal cost curves are used to show the equilibrium of firm. In this market, the MR curve is parallel to x-axis 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 MC curve must be rising at the point of equilibrium or The MC curve must cut MR curve from below or The slope of MC must be greater than slope of MR.

Graphical Presentation

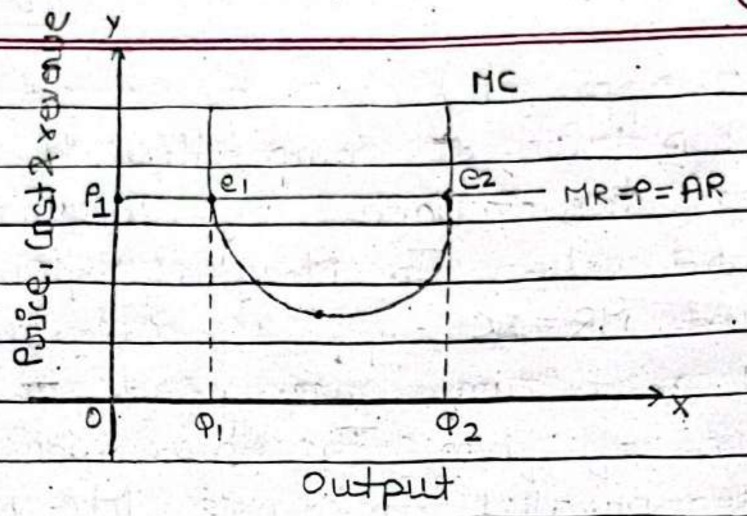

Fig: MR = MC approach under Perfect Competition

In the figure, output and price, cost and revenue are shown on x-axis and y-axis respectively. The curve denotes by MC and MR are Marginal cost and Marginal revenue cost 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_2 and equilibrium price is P_1.

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

15. Explain the wage fund theory of wage.

→ Introduction:

The wage fund theory of wages was developed by the classical economist J.S Mill. This theory was developed in order to explain the process of determination of wage rate in competitive market. This theory says that a nation should keep certain amount of capital of previous year in wage fund to give the wages to the labour.

Explanation:

According to wage fund theory, average wage rate is determined by following formula.

$$AWR = \frac{WF}{NW}$$

where AWR = average wage rate,
WF = wage fund and NW = number of workers

For example = suppose, a nation keeps Rs 100000 in wage fund (WF) for a year and the number of workers (NW) is 1000, then the AWR is:

$$AWR = \frac{WF}{NW} = \frac{100000}{1000} = Rs\ 1000$$

If the number of workers increased to 2000 keeping WF constant, then

$$AWR' = \frac{WF}{NW} = \frac{100000}{2000} = Rs\ 50$$

This shows that when the amount of wage funds increased than average wage rate also increase i.e there is direct relation between wage fund and average wage rate. But, when number of workers are increased then average wage rate decreases i.e there are inverse relation between number of workers (NW) and Average wage rate (AWR)

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

- This theory also ignores the role of trade union.
- The basis of wage determination is not wage fund but productivity of labour.
- This theory has wrong assumption about the source of wage fund.
- Wage rate does not depend only upon wage fund, it also depends upon stage of economic development, state of unemployment, government policy.

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16. Describe the functions of central bank

→ Introduction :- Central bank is the supreme bank and monetary authority of the nation. It regulates whole banking and monetary sector. Central bank is established in order to arrange the circulation of currency throughout the country, to develop the financial sector and to manage the foreign exchange rate. Nepal Rastra Bank is the central bank of Nepal. It was established on 14th Baisakh, 2013 BS.

Functions of central bank

i Monopoly of note issue

Issuing notes and coins is the noteable function of central bank. It issues the notes subject to certain safe guards imposed by the law. In Nepal, Nepal Rastra Bank issues the currency under the proportional reserve system. NRB has issued Rs 1 to Rs 1000.

ii Government's banker (agent and advisor)

It works as agent and advisor of government as it advices the government while formulating the policies. It provides all the necessary banking facilities to the government. It maintains the banking accounts of all the government offices. It accepts deposits and makes the payment on behalf of the government. As an agent, it purchases and sells the government securities like treasury bills.

iii Providing clearing house facilities

Central bank tries to settle the financial claims. Various commercial banks do their inter banking transactions i.e they do lending and borrowing. They send such claims to central bank. Now, the central bank settles their claims by transferring fund from one bank account to another bank account as per their request.

iv Control of credit

Central bank controls the credit in the nation. Credit is created by commercial and other banks and it is controlled by central bank. Excess credit creation results inflation and inadequate credit creation results in to deflation so, central bank controls the credit.

v Bank of all the bank

Central bank is also called the bankers bank. All commercial and other banks have

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their account in central bank. It keeps the cash reserve of commercial bank. All the banks do their banking transaction with central bank. They deposit money and withdraw from the central bank.

Conclusion: Besides above regular functions, some development functions are:-
- develops human resources
- publishes various data.

17. Suggest some remedial measures to achieve high level of employment in Nepal.

→ Introduction: The situation in which labour force are willing and able to work but unable to find gainful employment is called unemployment. There are two types of unemployment i.e voluntary and non voluntary unemployment. Unemployment brings a number of negative effect on economic and noneconomic sector. It is a serious problem. So, it should be minimized.

Remedial Measures

i Better utilization of natural resources
One of the major cause of unemployment

in Nepal is underutilization of natural resources. We must utilize the available resources in maximum capacity as it creates many employment opportunity. It helps to minimize the unemployment problem of Nepal.

ii Development of industry

We know that England had already entered into the phase of industrialization in 18th century. However, Nepal is still lacking in development of industries. So, inorder to solve the problem of unemployment many industries should be developed in all the provinces and local levels. Development of industries creates mass employment and reduces unemployment.

iii Managing higher wage policy

Low wage rate is the another reason for unemployment. So, inorder to encourage the labour for work, they should provide possibly higher wage rate. When high wages are provided to labour then they can fulfill their necessities. Workers are encouraged when high wages are provided. So, it reduces unemployment.

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iv Use of labour intensive technology
In many places, labours are replaced by machines or robot which creates unemployment. So, we must use labour intensive technology in maximum possible works, it creates employment opportunities. It even helps to reduce unemployment in the nation.

v Rapid development of infrastructure
All types of infrastructures are not well developed in Nepal. When government gives priority for the development of infrastructure like airports, road, railway, transport etc, it creates mass employment opportunities and minimizes unemployment.

Conclusion: The above explained points are the remedial measure to solve the problem of unemployment in Nepal. Priority should be given to cottage industries which creates employment at local level.

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18. Discuss about the process of plan formulation

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19.

calculation of price index number by using Laspeyre's formula:

Commodity	P_0	Q_0	P_1	Q_1	P_1Q_0	P_0Q_0
A	10	25	12	30	300	250
B	15	30	20	40	600	450
C	12	40	15	50	600	480
D	20	30	20	35	600	600
E	25	10	30	15	300	250
Total					$\Sigma P_1Q_0 = 2400$	$\Sigma P_0Q_0 = 2030$

We know that,

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

$$= \frac{2400}{2030} \times 100$$

$$= 118.22$$

Interpretation : $P_{01}(L)$ shows that price has increased by $(118.22 - 100) = 18.22$ in current year in the comparison of base year

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Group C
Long answer questions

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

→ Introduction:

The market which is characterized by large number of buyers and single sellers is known as monopoly market. In this type of market sellers sell unique product which has no close substitute. Different prices are charged with different level of output / buyers. The monopoly firm is called price makers because they determine price without considering market forces. There is strong barriers for new firms to enter the industry. Eg:- NOC, NEA.

Features of monopoly market

i. Large number of buyers and single sellers.
ii. Monopoly firm is called price makers
iii. There is strong barriers for new firms to enter the industry
iv. The objective of firm is profit maximization
v. Monopolist uses the policy of price discrimination.

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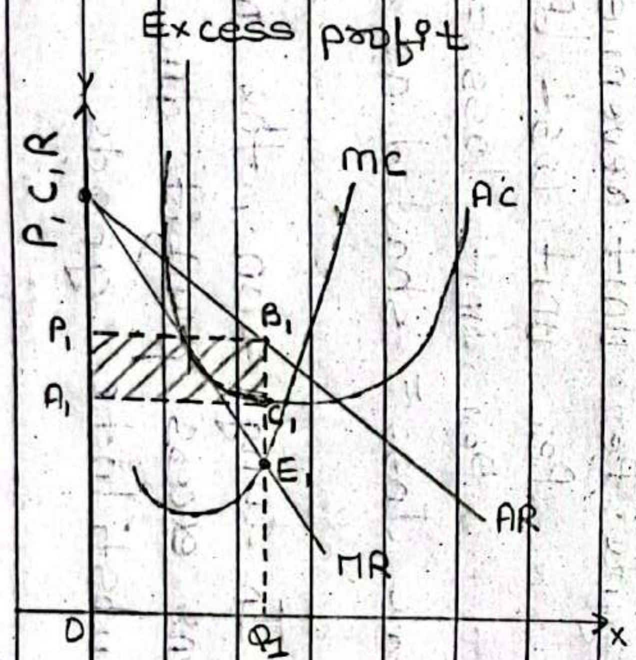
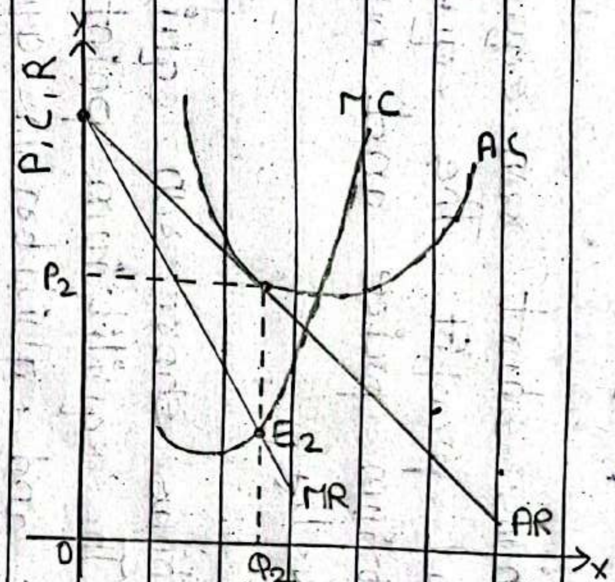
Price and output determination
The monopolist itself determines the equilibrium price and output without considering the market forces. So, the monopoly firm is called price makers.

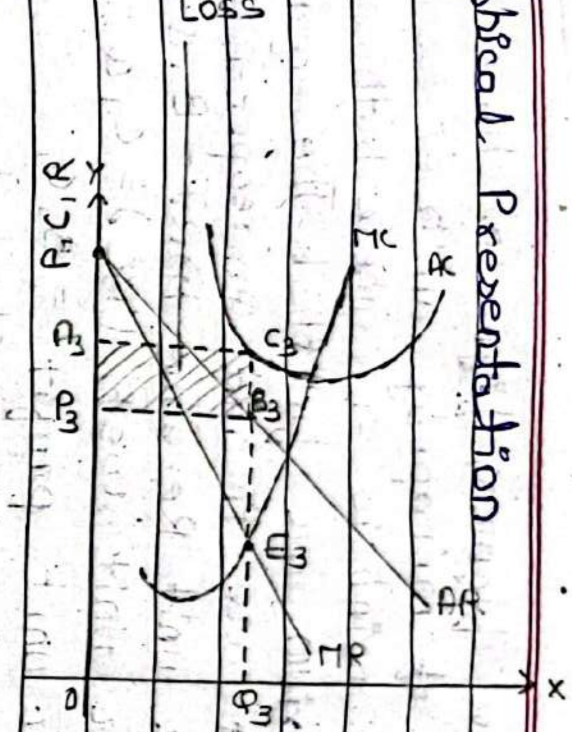
Equilibrium of firm
There are two approaches to explain the equilibrium of firm. Total approach (TR-TC) can show only equilibrium output and cannot show the equilibrium price. So, here we explain only Marginal approach which gives equilibrium output and equilibrium price in detail.
For the equilibrium of firm under marginal approach the following two condition must be fulfilled:
- First order condition : MR = MC
- Second order condition : MC must cut MR from below at the point of equilibrium

Short run equilibrium of firm
Due to short run time period available 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







Output

Figure (a): Short run equilibrium of monopoly with excess profit

Figure (b): Short run equilibrium of monopoly with normal profit

Figure (c): short run equilibrium of monopoly with loss

In the above figures, figure (a) shows short run equilibrium of monopoly with excess profit. The equilibrium point is e_1, where both conditions for equilibrium are fulfilled. The equilibrium price and output are P_1 and Q_1 respectively. From the figure: Per unit Revenue (AR) = B_1Q_1

Per unit cost (AC) = C_1Q_1

Per unit profit = B_1C_1

Total excess profit = shaded area ($P_1A_1B_1C_1$)

Figure (b) shows short run equilibrium of monopoly with normal profit. The equilibrium point is e_2, equilibrium price and output are P_2 and Q_2 respectively.

Figure (c) shows short run equilibrium of monopoly with loss. The equilibrium point is E_3, equilibrium price is P_3 and equilibrium quantity is Q_3.

From the figure: Per unit revenue (AR) = B_3Q_3

Per unit cost (AC) = C_3Q_3

Per unit loss = C_3B_3

Total loss = shaded area ($A_3P_3B_3C_3$)

Conclusion: In long run, the monopoly firm always earns excess profit due to the absence of close substitute goods

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

→ Introduction :

If the burden of the tax payment can not be shifted from one person to another person, it is called direct tax. In other words, the tax which is paid by the persons or institutions upon whom it is imposed by the government and can not be shifted to others is called direct tax. The examples of direct tax are:- Income tax, Property tax, Profit tax, Interest tax etc.

Merits :

i Ensures equality in the society

The burden of direct tax heavily falls on rich people. So, rich should pay higher rate of tax and poor should pay lower rate of tax. The amount collected from rich is used to increase the living standard of poor people. It provide employment opportunities to poor people. Thus, the economic gap between poor and rich is bridge by direct tax.

ii Ensure Certainity

Direct tax is certain in different aspects. It is certain regarding to the amount of tax paid, time for tax payment, place of tax payment etc. Similarly, government also can estimate revenue that could be collected from direct tax payers. So, direct tax ensure certainity to tax payers as well as government.

Elastic in Nature

Need and requirement of citizen is increasing as so is government expenditure is also increasing. To meet the increasing need, government expend more and thus, collect or try to collect more revenue from citizen by changing the rate of direct tax as per the need. So, the direct tax is elastic in nature as government can change rate of tax or tax base.

Economic in nature

Direct tax is economic to government in a sense that government should not make heavy expenditure to collect it. Business houses deduct direct tax from employee's or staff's salary and deposit in government account. Moreover, corporate organization maintains are account so, government should not invest to maintain.

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seperate account. Therefore, direct tax is economic in nature.

Demerits :-

i Difficult to the tax payers

The business houses and rich people should maintain record of income, expenditure and maintain seperate account section. They have to visit tax office very frequently and moreover need to pay lumpsum amount to government. This all become difficult to taxpayers.

ii Limited scope of revenue collection.

Direct tax is collected from income, profit, interest, etc of taxpayers. Mainly rich people pay direct tax. And there is few rich people and thus direct tax is collected in less amount. In the country like Nepal where there are few rich people, direct tax has limited scope.

iii Possibility of corruption

Some of direct tax payers may submit wrong information and document regarding income or profit. They try to escape from tax payment. So, the tax payers may also influence tax

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officer by bribing and try to cheat tax. So, there is high chance of corruption.

iv Reduce working spirit

The rate of tax increase with increase in level of income. So, high level of income earner get demotivated to earn and work. So, direct tax kills the spirit of tax payers to work.

Conclusion:

Direct tax is progressive in nature. But it is unscientific tax system. However, it is required for development activities.

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22. Describe the positive and negative impacts of foreign employment in Nepal.

→ Introduction: Foreign employment means going in another host country from home country for job to earn money. On average daily 1500 people go to abroad. By the end of 2021, around 57 lakhs Nepalese has gone abroad in search of employment opportunities. Foreign employment contributes 20% to GDP of Nepal. But foreign employment and remittance is not always beneficial for Nepal.

Positive Impact

i Provides employment opportunities

Due to lack of low industrial development and seasonal agriculture the in unemployment in Nepal. After 1956 AD Nepal started foreign trade and that promoted foreign employment. GULF countries like Malaysia, Japan, South Korea, etc are major destination of Nepalese for foreign employment. On average around 1500 Nepalese people migrate daily to these foreign countries

ii Increase in consumption pattern

Foreign employment provide income generating opportunities. When people can earn income, then they expenses them on consumption of basic and necessary goods, luxurious goods, capital goods etc. We ultimately increase the consumption pattern. According to Nepal living Standard Survey, 2011, 79% of remittance are used for consumption. And 65% of household receive remittance for consumption.

iii Increase the living standard

When foreign employment provide income earning opportunities, it increase the purchasing power of people. This increase the consumption pattern of Nepalese poor. When expenses and consumption increase than living standard automatically increase.

iv Increase government revenue.

Foreign employment promote international remittance, i.e flow of money. Government can collect tax on remittance. Beside due to remittance various consumption and investment activities increase which increase tax collection for government. So, foreign employment increase government revenue.

Negative Impact

i Increase in trade deficit

Foreign employment make easy gain of money for the member of families in home land. They demand more luxurious goods that result in

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increase of import, even people spend more eventually the trade deficit is seen in economy. Export decrease due to lack of labour and import increase due to excess more flow in local peoples hand that result in trade deficit.

ii Adverse effect on economic growth

Due to foreign employment, there is lack of labour in country. Due to this agricultural and industrial development get slowed. The resources are not utilized at optimum due to lack of manpower eventually economic growth declines of home country. So, in long run, foreign employment adversly effect on economic growth of the country.

iii Domination by developed countries

Developed countries or destination country may donate Nepal and its citizen in various field. In host country Nepalese are not free to excersice their human right. Nepalese cant express their views, and the destination countries impose a lot of condition on behalf of providing job to the citizen of Nepal.

iv Creates dependency

As the economy of Nepal is totally dependend on the remittance received from outside. The family member are total dependent on foreign employed member, they don't involve in any work which result in slowly growth of economy. On the other hand, government also depend upon remittance money and dollar currency sent by foreign worker. Thus, foreign employment creates dependency in various factor.

Conclusion: For short term remittance is good for Nepal. There is no alternative of remittance in recent years. But in long run it creates problems.