

Set II
Group 'A'

Very Short Answer Questions

11×1 = 11

1. Define Opportunity Cost?

- ✎ If several opportunities are given up for producing a particular commodity, then the opportunity cost is the value of the next best opportunity foregone. Thus, opportunity cost may be defined as the next best alternative foregone.

2. Define equilibrium.

- ✎ Equilibrium is a state of balance or stability in which opposing forces or influences are equal and balanced. It is a state in which no further change is expected to occur.

3. State the expansionary monetary policy.

- ✎ Expansionary monetary policy refers to the measures taken by a central bank to increase the money supply and lower interest rates in order to stimulate economic growth. This is done in times of recession or low economic activity when the economy needs a boost.

4. State the objectives of public borrowing.

- ✎ The following are the major objectives of public borrowing:
1. Financing government spending on infrastructure, social services, and other public goods;
 2. Stabilizing the economy during periods of recession or inflation;
 3. Funding public debt repayment.
 4. Supporting the long-term growth and stability of the economy.

5. What are the indicators of human development?

- ✎ The indicators of human development are life expectancy, education, income, gender equality, and health, which are used to calculate the Human Development Index (HDI). This index measures a country's overall human development based on these five aspects.

6. State the major objectives of SAFTA.

- ✎ The major objectives of SAFTA (South Asian Free Trade Area) are:
1. To increase intra-regional trade,
 2. To eliminate trade barriers,
 3. To promote regional integration and cooperation among the South Asian countries.
 4. To develop trade-related infrastructure and supporting services.

7. What are the objectives of current Fifteenth Five Year Plan of Nepal?

- ✎ The fifteenth five-year plan is the current five-year plan in Nepal. Its objectives are as follows:
1. To build the basis of prosperity
 2. To give citizens the feeling of well-being and decent livelihood
 3. To protect national interests, self-respect, and independence

8. Clarify the quality education according to UN.

- ✎ Quality education, according to the United Nations (UN), is education that is inclusive, equitable, and accessible to all individuals, with a focus on promoting human rights, gender equality, and sustainable development. It aims to develop critical thinking and lifelong learning skills, while preparing individuals for active participation in society.
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9. State the major limitations of statistics.

- ✎ The following are the limitations of statistics:
1. Statistics does not deal with an individual.
 2. It does not study about qualitative phenomenon.
 3. Statistical results are not 100 percent exact.
 4. Statistics is liable to be misused.
 5. Statistics is only a means, not an end.
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10. Define secondary data.

- ✎ Secondary data is information that has been collected and analyzed by someone else and is used by others as a source of reference. It is not collected specifically for the current research or analysis and is usually obtained from existing sources such as books, journals, websites, reports, or databases.
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11. Calculate the value of 'a' from the following data if A.M. is 16.

Income (Rs.): 10, 12, a, 18, 26

Solution:

$$\text{Arithmetic Mean } (\bar{X}) = \frac{\text{Sum of data } (\sum X)}{\text{No. of observations } (n)}$$

$$\text{or, } 16 = \frac{10 + 12 + a + 18 + 26}{5}$$

$$\text{or, } 80 = 66 + a$$

$$\text{or, } a = 80 - 66$$

$$\therefore a = \text{Rs. } 14$$

Group 'B'

Short Answer Questions

8×5 = 40

12. Explain about the shift of production possibility curve.

- ✎ Shift in production possibility curve (PPC) is defined as the movement of the entire PPC from its initial position to left or right. The shift in PPC is of two types:

1. Outward shift in PPC

It is the movement of the entire PPC curve from its initial position to the right. There are various causes of the outward shift in PPC. The main causes are as follows:

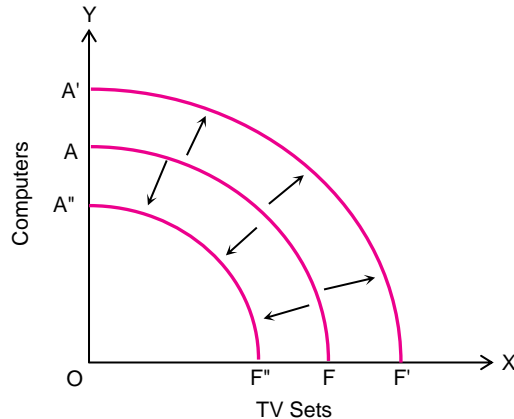
- a. Technological progress in the economy.
- b. Improvement in labour productivity in the economy.
- c. Increase in investment.
- d. Discovery of new sources of raw materials.
- e. Increase in the size of the active population.

2. Inward shift in PPC

It is the movement of the entire PPC curve from its initial position to the left. There are various causes of the outward shift in PPC. The main causes are as follows:

- Decrease in labour productivity in the economy.
- Decrease in investment.
- Shortage of raw materials.
- Decrease in the size of the active population.

The outward and inward shifts in PPC is shown with the help of the following figure:



In the figure, TV sets and computers are measured along the X-axis and the Y-axis. AF is the initial PPC. An outward shift in PPC from AF to A1F1 shows an increase in the productive capacity of the economy whereas an inward shift from AF to A2F2 shows a decrease in the productive capacity of the economy.

12 or, Explain the various features of capitalist economy.

✎ Capitalism is an economic system that emphasizes private ownership of production and distribution of goods and services. Here are some of the key features of a capitalist economy:

- 1. Private Property:** Private ownership of property is a fundamental principle of capitalism, including property rights over resources, goods, and means of production.
- 2. Profit Motive:** In a capitalist economy, individuals and businesses are motivated to maximize their profits, which drives innovation and competition.
- 3. Economic Freedom:** Capitalism allows individuals and businesses to pursue their economic interests freely, including buying and selling goods, investing, and creating businesses.
- 4. Limited Role of Government:** While governments have a role in providing basic infrastructure and public goods, capitalism limits the government's involvement in the economy.
- 5. Consumer Sovereignty:** In a capitalist economy, consumers have the power to make choices and determine what goods and services are produced and what prices they are willing to pay.

Overall, these features of a capitalist economy create an environment that promotes innovation, efficiency, and economic growth, but may also result in income inequality and market failures, requiring regulatory interventions.

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

Level of output	TC	AC	MC
0	20	-	-
1	35	35	-
2	44	22	-
3	50		-
4	60		-
5	75		-
6	110		-

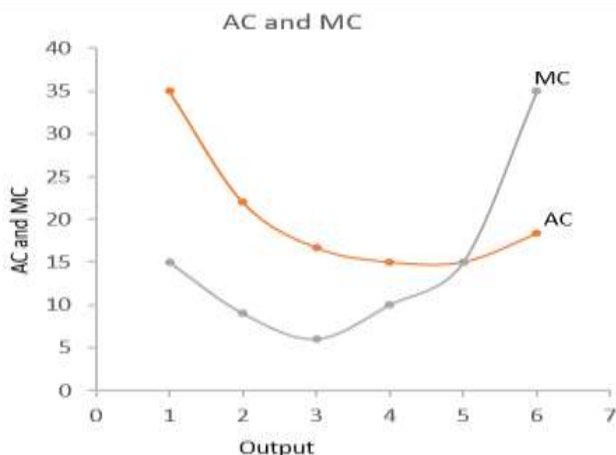
- Complete the given table.
- Draw the AC and MC curves.
- State the nature of TFC, TVC and TC curves.

Solution:

- The given table can be completed as follows:

Level of output	TC	AC	MC
0	20	-	-
1	35	35	15
2	44	22	9
3	50	16.67	6
4	60	15	10
5	75	15	15
6	110	18.33	35

- Derivation of AC and MC curves



c. Relationship between AC and MC curves

The relationship between AC and MC can be stated as:

- When $MC < AC$, then AC falls.
- When $MC = AC$, then AC is Minimum.
- When $MC > AC$, then AC rises.
- When MC is falling AC must fall.

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

A firm is in equilibrium when it maximizes its profit. There are two methods for the determination of the equilibrium of a firm. They are:

1. Total Revenue and Total Cost Approach (TR-TC Approach)
2. Marginal Revenue and Marginal Cost Approach (MR-MC Approach)

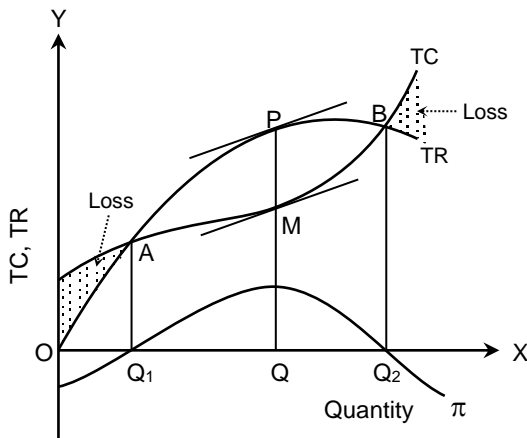
Total Revenue (TR) and Total Cost (TC) Approach

Here, total profit (π) is the difference between total revenue (TR) and total cost (TC).

i.e. $\pi = TR - TC$

In this approach, a firm is said to be in equilibrium when the gap between total revenue (TR) and total cost (TC) is the maximum i.e., the profit (π) is maximum.

The equilibrium condition of a firm under this approach can be explained by the help of the following figure:



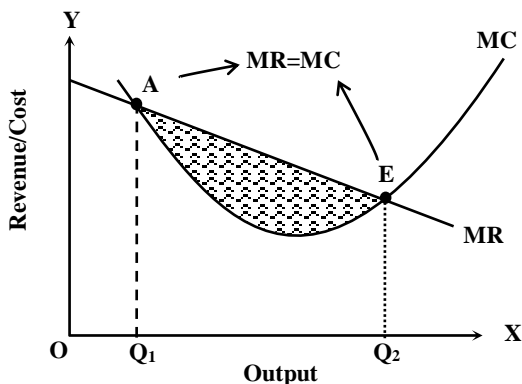
In the figure, the firm faces loss if the output is less than OQ_1 or more than OQ_2 . Points A and B are break-even points where profit is zero. In order to find maximum profit, a tangent line is drawn to the TC curve. When this tangent line is parallel to TR curve, the profit is the maximum. Therefore, OQ is the equilibrium level of output of the firm where the vertical distance between TR and TC curves is the maximum.

Marginal Revenue (MR) and Marginal Cost (MC) Approach

Under this approach, a firm will be in equilibrium the following two conditions are fulfilled.

1. $MC = MR$
2. MC curve cuts MR curve from below,

The equilibrium condition of a firm under this approach is shown in the following figure:



In the figure, the firm can maximize its profit at point E where, $MC = MR$ and MC curve cuts MR curve from below. So, the firm can maximize its profit by producing OQ_2 level of output.

15. Explain the classical theory of interest.

- ✎ The classical theory of interest was developed by classical economists and refined by later economists. It states that the equilibrium rate of interest is determined by the demand for and supply of capital. It is also known as the investment-saving theory of interest.

Demand for Capital

Demand for capital arises from investment. There is inverse relationship between rate of interest and investment. The higher the interest rate, the lower the demand for capital, and vice versa. As a result, the demand curve for capital slopes downward to the right.

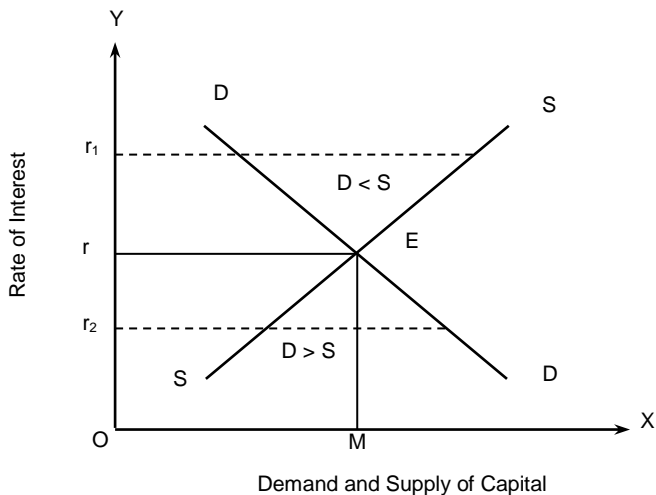
Supply of Capital

Supply of capital comes from saving. There is direct relationship between rate of interest and saving. The higher the interest rate, the higher the supply of capital, and vice versa. As a result, the supply curve of capital slopes upward to the right.

Determination of Equilibrium Rate of Interest

Equilibrium rate of interest is determined at the point where demand for capital is equal to the supply of capital as shown below:

Rate of Interest (%)	Demand for Capital	Supply of Capital
6	10	30
5	20	20
4	30	10



In the figure, DD and SS are the demand and supply curve of capital. They are intersected at point E . So E is the equilibrium point where equilibrium rate of interest is O_r and the amount of capital is OM .

16. Describe the functions of commercial bank.

✎ A commercial bank is a financial institution that accepts deposits, provides loans and offers a range of services to individuals and businesses. The major functions of commercial bank are:

1. **Accepting deposits:** Commercial banks accept various types of deposits from public like saving deposit, current deposit and fixed deposit, the deposits are payable after certain period.
2. **Advancing of loans:** Commercial banks provide loans and advances like cash credit, ordinary loan, overdraft facility, discounting of bill, etc. These are provided against the proper security.
3. **Credit creation:** It is the most important function of commercial banks, when a bank provides loans to customers it does not provide cash, but instead it opens a deposit account where the borrower can withdraw, while sanctioning loans bank automatically creates deposit. This is also known as credit creation from commercial banks.
4. **Agency functions:** Commercial banks help in the collection and payments of various items such as rent, insurance premium, etc., purchase and sales of securities, trustee and executor of the property of customers, remittance of money, and providing letters of reference.
5. **Contingent functions:** Commercial banks provide safety locker facility to customers, issue travelers cheque, provide debit cards and credit cards and underwrite company debenture.

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

✎ Nepal can take the following remedial measures to minimize poverty:

1. **Promote economic growth and job creation:** Nepal can invest in infrastructure development and create favorable business environments to attract domestic and foreign investment. This will generate employment opportunities, stimulate the economy and improve living standards.
2. **Expand education and skill development:** Improved education and skill development can provide better job prospects and increase earning potential, reducing poverty in the long term.
3. **Increase access to healthcare:** Inadequate healthcare can worsen poverty by impeding economic productivity, increasing healthcare expenses, and diminishing quality of life. Better access to healthcare can prevent or treat diseases, improving overall health outcomes.
4. **Strengthen social safety nets:** A well-functioning social safety net, like cash transfers or food assistance programs, can help alleviate the financial burden on vulnerable populations and reduce the incidence of extreme poverty.
5. **Address corruption and promote good governance:** Corruption drains resources from development programs and diverts funding away from the poor. Addressing corruption and promoting good governance can ensure resources reach their intended targets.

By implementing these measures, Nepal can make a significant impact on poverty reduction and improve the lives of its citizens.

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

✎ The fifteenth five-year plan is the current five-year plan in Nepal. Its vision, objectives and strategies are as follows:

Vision

The long-term vision of this five-year plan is "Prosperous Nepal, Happy Nepali".

Objectives

1. To build the basis of prosperity
2. To give citizens the feeling of well-being and decent livelihood
3. To protect national interests, self-respect, and independence

Strategies

1. To achieve rapid, sustainable and employment-oriented **economic growth**
2. To ensure universal and quality **health service and education**
3. To develop internal and cross-border **interconnectivity** and sustainable cities/settlements
4. To increase production and productivity
5. To provide complete, sustainable and productive **social security and protection**
6. To build a **just society** with socio-economic equality and poverty alleviation
7. To **protect and mobilize natural resources** along with building their resilience
8. To promote **national unity and provincial balance**, strengthening public service

19. Calculate the value of standard deviation, variance and coefficient of variation from the following data:

Class	2-4	4-6	6-8	8-10	10-12	12-14	14-16	16-18
Frequency	4	10	8	5	10	6	4	2

Solution: Calculation of standard deviation

Marks	x	f	fx	fx ²
2-4	3	4	12	36
4-6	5	10	50	250
6-8	7	8	56	392
8-10	9	5	45	405
10-12	11	10	110	1210
12-14	13	6	78	1014
14-16	15	4	60	900
16-18	17	2	34	578
		N = $\sum f = 49$	$\sum fx = 445$	$\sum fx^2 = 4785$

Here, Mean $(\bar{X}) = \frac{\sum fX}{N} = \frac{445}{49} = 9.08$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum fX^2}{N} - \left(\frac{\sum fX}{N}\right)^2}$$

$$= 3.90$$

Interpretation: Here, $\sigma = 3.90$. It means the average deviation of the data from the mean value (9.08) is 3.90.

Group 'C'

Long Answer Questions

3×8 = 24

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

✎ Perfect competition is a market situation characterized by the existence of a large number of buyers and sellers of homogeneous products with perfect knowledge and free entry so that no single buyer or seller can influence the price of the product.

An industry is a group of different firms producing homogeneous products. Under perfect competition, the price of the product is determined by the industry with the help of demand and supply forces. An individual firm cannot influence the market price. Therefore, it is simply a price-taker, not a price maker. Therefore, a firm's job is to determine the level of output only. For determining the equilibrium level of output a firm must satisfy the following two conditions:

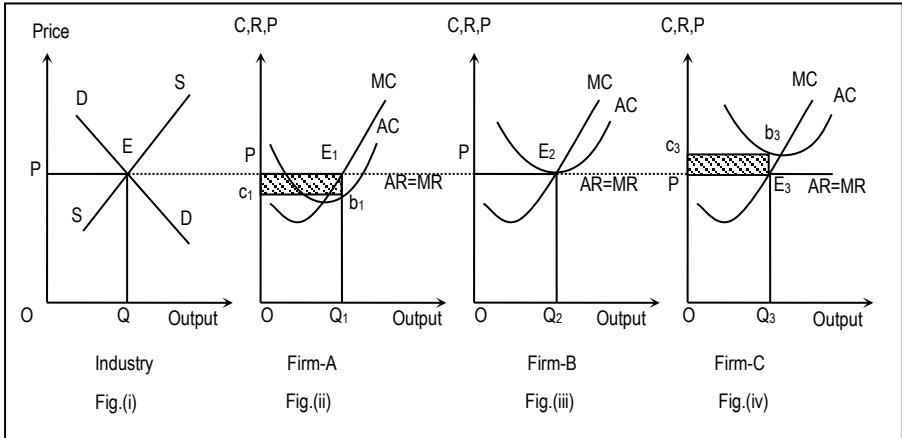
1. $MC = MR$, and
2. MC must cut MR from below.

Short-run equilibrium of a firm:

In the short-run, the equilibrium of a firm does not necessarily mean that it makes excess profits. Whether the firm makes an excess profit, normal profit or loss depends on the level of the AC at the short-run equilibrium. These three cases are:

1. If $AR = AC$; the firm receives normal profit
2. If $AR > AC$; the firm receives excess profit
3. If $AR < AC$; The firm faces a loss situation.

Diagrammatic Representation



In the figure (i), the industry is in equilibrium at point E, where demand and supply curves are intersected. At this point, equilibrium price and quantity are OP and OQ respectively.

1. **Excess Profit:** In the figure (ii), E₁ is the equilibrium point where there is $MC = MR$ and MC cuts MR from below. At this point,

Equilibrium output (Q) = OQ₁

Average revenue (AR) = E₁Q₁ = Price (OP)

Average cost (AC) = OC₁ or (b₁Q₁)

Here, $AR > AC$

- ∴ This is the situation of super normal profit. The area PE₁b₁c₁ (shaded area) is the total profit.

2. **Normal Profit:** In the figure (iii), E₂ is the equilibrium point where there is $MC = MR$ and MC cuts MR from below. At this point,

Equilibrium output (Q) = OQ₂

Average revenue (AR) = E₂Q₂ = Price (OP)

Average cost (AC) = OC₂ or (E₂Q₂)

Here, $AR = AC$

- ∴ This is the situation of normal profit.

3. **Loss:** In the figure (iv), E₃ is the equilibrium point where there is $MC = MR$ and MC cuts MR from below. At this point,

Equilibrium output (Q) = OQ₃

Average revenue (AR) = E₃Q₃ = Price (OP)

Average cost (AC) = OC₃ or (b₃Q₃)

Here, $AR < AC$

- ∴ This is the situation of loss. The area PE₃b₃c₃ (shaded area) is the total loss.

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

- ✎ Indirect taxes are levied on goods and services and are not directly paid by the end consumer. The following are some of the merits and demerits of indirect taxes:

Advantages of Indirect Taxes

The following are the main advantages of indirect taxes:

1. **Convenient:** Indirect taxes are convenient for taxpayers as they are usually included in the price of goods and services, making it easy to pay without the need for separate payments.
2. **Less Evasion:** Indirect taxes are difficult to evade as they are collected at the point of sale or consumption. This reduces the chances of tax evasion and ensures a stable revenue source for the government.
3. **Wider coverage:** Indirect tax has a wider coverage because it is levied on a large number of goods and services. This makes it possible for the government to generate a significant amount of revenue from the tax, which can be used to fund various development projects.
4. **Reduces Income Inequality:** Indirect taxes can reduce income inequality by levying higher taxes on luxury goods and services, which are typically consumed by the rich. This means that the rich pay a larger share of the tax burden, which can help to reduce the gap between the rich and the poor.

Disadvantages of Indirect Taxes

The following are the main disadvantages of indirect taxes:

1. **Uneconomical in tax collection:** Indirect taxes can be uneconomical in their collection because of the high administrative costs involved. Collecting taxes from a large number of small businesses and individuals can be time-consuming and expensive for the government.
2. **Regressive:** Indirect taxes are regressive, which means that they have a greater impact on low-income earners than high-income earners. This is because the tax is levied at a fixed rate, regardless of the income of the individual.
3. **Uncertain:** Indirect taxes are dependent on the consumption patterns of individuals and the economy's overall health. Hence, they are unpredictable in terms of revenue generation. The amount collected through indirect taxes fluctuates and is uncertain.
4. **Inflationary:** Indirect taxes can be inflationary, as they increase the cost of goods and services. This can lead to an increase in the price level, which can be harmful to the economy if it is not controlled.

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

- ✎ Foreign trade is significant for Nepal for several reasons, including:

1. **Economic growth:** Foreign trade is essential for Nepal's economic growth as it helps to boost domestic production, exports, and employment opportunities. Increased foreign trade activity can lead to higher foreign exchange earnings, which can be used to fund infrastructure development projects.
2. **Diversification of exports:** Nepal's export portfolio is concentrated in a few products such as carpets, garments, and handicrafts. Foreign trade diversification can help

Nepal to expand its export portfolio, which can help to reduce its dependency on a few products.

3. **Access to foreign markets:** Access to foreign markets is essential for Nepal's export-oriented industries. By trading with other countries, Nepali businesses can access a larger consumer base, which can help to increase revenue and profitability.
4. **Technology transfer:** Foreign trade can help to facilitate the transfer of technology and knowledge from developed countries to Nepal. This can help to improve the quality and productivity of Nepali businesses.
5. **Foreign investment:** Foreign trade can help to attract foreign investment in Nepal. Foreign investors are more likely to invest in a country that has a thriving export sector.
6. **Creates job opportunities:** Foreign trade creates job opportunities in Nepal. When the country exports its products, it generates employment opportunities in the manufacturing and service sectors. Similarly, when the country imports goods, it creates job opportunities in the wholesale and retail sectors.
7. **Increases competition:** Foreign trade increases competition in the Nepalese market. This forces domestic producers to improve the quality of their products and to reduce their costs. As a result, consumers benefit from the availability of high-quality products at lower prices.

In conclusion, foreign trade is vital for Nepal's economic development and can help to diversify its export portfolio, improve access to foreign markets, facilitate technology transfer, and attract foreign investment.