

Set III

1. What is Production Possibility Curve?

✂ Production possibility curve is the locus of various combinations of two goods or services that an economy can produce with the full use of its given resources and state of technology.

2. List the four features of perfect competition market.

✂ The following are the features of perfect competition market:

1. Large number of buyers and sellers.
2. All the firms are producing homogeneous products.
3. Free entry and exit of firms.
4. Perfect mobility of factors of production.

3. Define contractionary monetary policy.

✂ Contractionary monetary policy is a type of monetary policy aimed at decreasing the supply of money in the economy and reducing inflation. This is achieved by increasing interest rates and reducing the availability of credit, which slows down the rate of spending and investment in the economy.

4. Define government budget.

✂ A government budget is an estimate of the revenue and expenditures of a government for a specified period, usually a fiscal year. Besides receipts and expenditure, budget also reflects the programs and policies of the government relating to growth and development of the country.

5. Distinguish between firm and industry.

✂

Firm	Industry
1. Firm is an individual producing unit of the industry.	Industry is a group of firms producing homogeneous products.
2. A firm is a price-taker, not a price maker. It follows the price determined by the industry.	An industry determines price at the intersecting point of demand and supply curves.

6. Define BOT and BOP

✂ Balance of Trade (BOT) refers to the difference between a country's exports (X) and imports (M) of goods and services.

Balance of Payment (BOP), on the other hand, is a record of all transactions between a country and other countries in the world. It includes not only trade in goods and services but also financial flows, such as investments, remittances, and government transfers.

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

✂ The major strategies of current Fifteenth Five Year Plan of Nepal are:

1. To achieve rapid, sustainable and employment oriented economic growth.
2. To boost production and productivity.
3. To consume and utilize natural resources in the sustainable manner.
4. To ensure affordable and quality health care and education.

8. Define sustainable development.

- ✗ Sustainable development is a concept that refers to the ability of a society or community to meet the needs of its current population without compromising the ability of future generations to meet their own needs.
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9. List the major sources of secondary data.

- ✗ The major sources of secondary data are:
1. Government reports and statistics
 2. Trade associations and organizations
 3. Market research reports
 4. Published articles and books
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10. What is use of statistics in economics?

- ✗ The following are two uses of statistics in economics:
1. Statistics are used to analyze market trends and make informed decisions in investment strategies.
 2. Statistics are used to calculate and interpret macroeconomic indicators such as inflation and Gross Domestic Product (GDP).
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11. Calculate value of median form the following data.

Marks: 13 17 19 23 25 27

Solution:

$$\begin{aligned}M_d &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\&= \text{Value of } \left(\frac{6+1}{2}\right)^{\text{th}} \text{ item} \\&= \text{Value of } \left(\frac{7}{2}\right)^{\text{th}} \text{ item.} \\&= \text{Value of } \left(\frac{3^{\text{rd}} \text{ item} + 4^{\text{th}} \text{ item}}{2}\right) \\&= \frac{19+23}{2} \\&= 21\end{aligned}$$

Group 'B'

Short Answer Questions 8×5 = 40

12. Explain about the merits of division of labour.

✎ Division of labor refers to the process of dividing a task or work into smaller parts and assigning each part to an individual worker or group of workers based on their skills, qualifications, and experience. This leads to specialization by individuals and cooperation among the group to achieve the overall goal.

Merits of Division of Labour

The following are advantages of division of labour:

1. **Right man in the right place:** Under the division of labour, workers are so distributed among the various jobs that each worker is put in the right place. There will be no round pegs in square holes.
2. **Increased Efficiency:** Division of labour allows for the specialization of tasks, which leads to an increase in efficiency. Workers can become experts in a specific area and can perform their tasks more quickly and effectively.
3. **Less training required:** Training a worker in a specific task is easier and quicker than training them in a variety of tasks.
4. **Large-scale production:** Division of labour leads to specialization which in turn helps to increase productivity. Thus, a firm can enjoy economies of large scale.
5. **Saving on time, tools and implements:** Workers are only required to have the necessary tools for their specific tasks, which saves on time and reduces the need for frequent tool changes or moving from one process to another.

Besides, occupational diversity, inventions and cheaper things are the other advantages of division of labour.

Q. No. 12 or

Explain the various features of socialist economy.

✎ **Socialist Economy**

A socialist economy is a system where the government controls the means of production and distribution to benefit society. The central planning authority makes decisions on resource allocation and production. It is also called a centrally planned economy.

Features of Socialist Economy

The socialist economy has the following main features:

1. **State control:** The government owns and controls the means of production and resources. Only individuals have limited ownership.
2. **Social welfare focus:** Decisions are made to benefit the whole society, not just individuals.
3. **Central planning:** The government makes all economic decisions, including production, consumption, and investment.
4. **Economic equality:** All members are equal in terms of income and wealth. However, there may be some reasonable differences.
5. **No class conflicts:** There is no competition between classes as all members are seen as co-workers.

Countries such as Russia, China, and some eastern European countries used to be considered socialist, but they are now becoming more liberal for economic development.

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

Quantity sold (Q)	Per unit Price (P)	TR	AR	MR
1	10	-	-	-
2	9	-	-	-
3	8	-	-	-
4	7	-	-	-
5	6	-	-	-
6	5	-	-	-
7	4	-	-	-

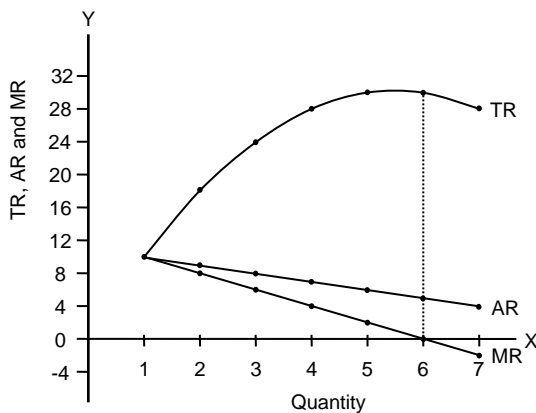
- Complete the given table.
- Draw the TR, AR and MR curves.
- State the nature of TR, AR and MR curves.
- Either the table indicates market is monopoly or perfect competition and why?

Solution:

- The given table can be completed as follows:

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

- TR, AR and MR curves



- c. In the figure, TR is the Total Revenue curve. Initially, it is increasing with the increase in output. After reaching its maximum point, it starts falling. Therefore, it is half-oval shaped.

The Average Revenue (AR) or demand curve is downward sloping, but remains positive.

The Marginal Revenue (MR) curve is also downward sloping. At $Q = 6$, $MR = 0$ and TR is the maximum. When MR is negative, it lies below the x-axis and TR is declining.

14. Explain the equilibrium of firm under perfect competition 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)

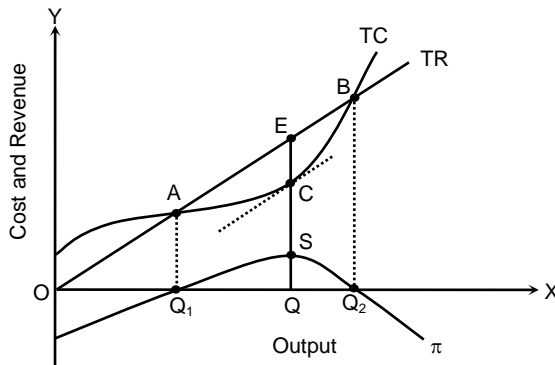
Total Revenue (TR) and Total Cost (TC) Approach

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:



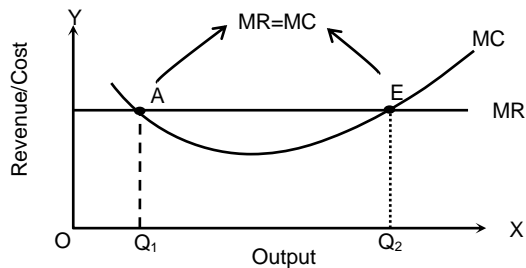
In the figure, the firm faces loss if the output is less than OQ_1 or more than OQ_2 . Points A and B are break-even points where profit is zero. In order to find maximum profit, a tangent line is drawn to the TC curve. When this tangent line is parallel to TR curve, the profit is the maximum. Therefore,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

✍ The subsistence theory of wages was first introduced by Quesnay, a member of the Physiocratic School of French economists and further developed by David Ricardo. The German economist Lassalle referred to it as the 'Iron Law of Wages'. This theory is associated with the Malthusian Theory of Population.

According to this theory, workers should be paid a minimum wage that is just enough to meet their basic needs, such as food, shelter, and clothing.

If workers receive wages above this minimum subsistence level, they will become more prosperous and may have larger families, leading to an increase in the labor supply. This, in turn, will cause a surplus of labor, leading to a decrease in wages back down to the minimum subsistence level.

Conversely, if workers receive wages below the minimum subsistence level, they will struggle to survive, leading to a decrease in the labor supply. This will cause a shortage of labor, leading to an increase in wages up to the minimum subsistence level.

In conclusion, the subsistence theory of wages states that over time, wages will tend to settle at the minimum subsistence level. If wages deviate from this level, market forces will bring them back to the minimum subsistence level in the long run.

16. Describe the role of banking system.

✍ The role of banking system can be explained as follows:

1. **Access to credit:** The banking system plays a vital role in providing access to credit for individuals, businesses, and industries, which is crucial for economic development. The banks provide loans and other financial services that help individuals and businesses to invest in their ventures and expand their operations.
2. **Mobilization of Savings:** The banking system is a major contributor to the mobilization of savings in Nepal. By providing deposit services, banks are able to channel the savings of individuals and organizations into productive investments, thereby promoting economic growth.
3. **Encouragement of Foreign Investments:** The banking system provides a favorable environment for foreign investments in Nepal. Foreign investors often rely on banks for financing and other related services, and the availability of such services is critical for the growth of the economy.
4. **Promotion of Entrepreneurship:** The banking system helps to promote entrepreneurship by providing credit to individuals and businesses who want to start

new ventures. This leads to the creation of new businesses, which contributes to economic growth.

- 5. Infrastructure Development:** The banking system also plays a crucial role in infrastructure development in Nepal. By providing financing for large infrastructure projects, banks help to build the foundation for economic growth and stability in the country.

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

☒ The following are some remedial measures to solve the problems of foreign trade in Nepal:

- 1. Improving Infrastructure:** Improving the infrastructure facilities in Nepal, such as roadways, airports, and ports, will help in reducing the cost of transportation and increase the efficiency of trade.
- 2. Promoting Investment in Trade-related Sectors:** Encouraging investment in trade-related sectors, such as manufacturing and agriculture, will help in increasing the export potential of Nepal.
- 3. Enhancing Trade Relations with Neighbouring Countries:** Nepal should work on enhancing trade relations with its neighbouring countries, especially India, to increase the export potential of Nepalese goods.
- 4. Increasing Export Promotion Activities:** Increasing export promotion activities, such as trade fairs and exhibitions, will help in increasing the visibility of Nepalese products in the international market and promoting exports.
- 5. Encouraging Diversification of Export Products:** Encouraging the diversification of export products will help in reducing the dependence on a few products and increase the resilience of the trade sector.

These are some of the remedial measures to solve the problems of foreign trade in Nepal.

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

☒ The various causes of unemployment in Nepal are as follows:

- 1. Lack of industrialization:** Nepal is primarily an agricultural country, with a limited number of industries. This leads to a limited number of job opportunities, resulting in high unemployment rates.
- 2. Lack of education and skill development:** A large portion of the population in Nepal lacks the necessary education and skills required for employment. This leads to a mismatch between the skills of the labor force and the demands of the job market.
- 3. Underemployment:** Despite the high rates of unemployment, a significant portion of the workforce is underemployed, working in low-paying jobs without benefits or stability.
- 4. Political instability:** Political instability and frequent changes in government policies have resulted in a lack of investment and job opportunities in Nepal.
- 5. Poor infrastructure:** Nepal has poor infrastructure, which hinders economic growth and job creation. This makes it difficult for businesses to operate and create jobs, leading to high levels of unemployment.

These are some of the major causes of unemployment in Nepal, and addressing these challenges is crucial for reducing unemployment and promoting economic growth and development in the country.

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

Class	10	20	30	40	50	60	70	80
Frequency	4	10	8	5	10	6	4	2

Solution: Calculation of standard deviation, variance and coefficient of variation from the given data.

Class (X)	Frequency (f)	fX	fX ²
10	4	40	400
20	10	200	4000
30	8	240	7200
40	5	200	8000
50	10	500	25000
60	6	360	21600
70	4	280	19600
80	2	160	12800
	N = 49	∑fX = 1980	∑fX ² = 98600

Here, N = 49, ∑fX = 1980, and ∑fX² = 98600

$$\text{Now, Mean } (\bar{X}) = \frac{\sum fX}{N} = \frac{1980}{49} = 40.40$$

We know that,

$$\begin{aligned} \text{Standard Deviation } (\sigma) &= \sqrt{\frac{\sum fX^2}{N} - \left(\frac{\sum fX}{N}\right)^2} \\ &= \sqrt{\frac{98600}{49} - \left(\frac{1980}{49}\right)^2} \\ &= 19.48 \end{aligned}$$

$$\text{Variance } (\sigma^2) = 379.43$$

$$\text{Coeff. of variation (CV)} = 48.22$$

Q19 or

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

Commodity	Base Year 2020		Current Year 2021	
	Price (Rs.)	Quantity (Kg)	Price (Rs.)	Quantity (Kg)
E	15	50	20	60
F	10	30	12	40
G	12	40	15	45
H	25	20	30	25
I	20	25	25	30

Solution: Calculation of the Laspeyre's and Paasche's price index from the given data.

Commodity	P ₀	Q ₀	P ₁	Q ₁	P ₁ Q ₀	P ₀ Q ₀	P ₁ Q ₁	P ₀ Q 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	500	750	600
					$\sum P_1 Q_0$ =3185	$\sum P_0 Q_0$ = 2530	$\sum P_1 Q_1$ =3855	$\sum P_0 Q_1$ =3065

We know that,

Laspeyre's Price Index is

$$\begin{aligned}
 P_{01}(L) &= \frac{\sum P_1 Q_0}{\sum P_0 Q_0} \times 100 \\
 &= \frac{3185}{2530} \times 100 \\
 &= 125.89
 \end{aligned}$$

Interpretation: There has been rise in general price level by 25.89% in comparison to the base year 2020.

Paasche's Price Index is

$$\begin{aligned}
 P_{01}(P) &= \frac{\sum P_1 Q_1}{\sum P_0 Q_1} \times 100 \\
 &= \frac{3855}{3065} \times 100 \\
 &= 125.77
 \end{aligned}$$

Interpretation: There has been rise in general price level by 25.77% in comparison to the base year 2020.

Group 'C'

Long Answer Questions

3×8 = 24

20. Critically explain the Ricardian theory of rent.

✎ This theory was propounded and developed by the famous classical economist **David Ricardo** in his book, **Principle of Political Economy and Taxation**, published in 1817. He restricted rent to land alone. According to him, *“Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible power of the soil.”*

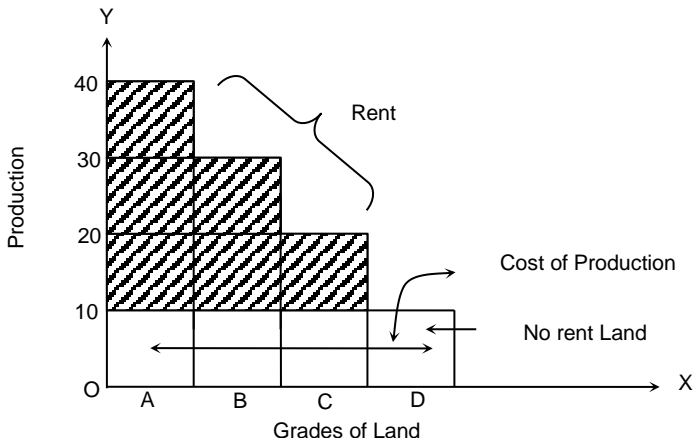
Ricardian theory of rent is based on the following assumptions:

1. Rent arises from land only.
2. There is no rent on marginal land.
3. Various plots of land are cultivated in the declining order of their fertility.
4. The law of diminishing returns applies in agriculture.

According to Ricardo, different plots of land have different productive powers. In the beginning, people cultivate the best type of land. As the population increases, people have to cultivate inferior lands also to fulfil the increased demand for food grains. The

excess of production on superior land over inferior land is a differential surplus and it is the rent of the superior land. This can be explained with the help of the following schedule and diagram.

Grades of Land		Total Production (In quintals)	Rent (In quintals)
Intra Marginal land	A	40	$40 - 10 = 30$
	B	30	$30 - 10 = 20$
	C	20	$20 - 10 = 10$
Marginal land	D	10	$10 - 10 = 0$



Criticism:

The following are the criticisms of Ricardian Theory of Rent:

1. There is **no original and indestructible power of the soil as suggested by Ricardo**. With constant cultivation, even the most fertile pieces of land lose their fertility. On the other hand, the fertility of soil can be improved by adopting better inputs and methods.
2. **Historically wrong order of cultivation: Ricardo** assumes that land is cultivated in order of fertility. But critics say that lands situated near the human habitations are cultivated first whether they are more fertile or less fertile.
3. **Rent arises for all factors of production: Ricardo** believed that rent is paid for the use of land only. But modern economists are of the view that rent is paid for any factor of production which has a perfectly inelastic supply.
4. **Wrong assumption of Marginal land:** In a densely populated country where the pressure of population on land is high, even the inferior land yields rent.
5. **Rent arises due to scarcity of land:** According to critics, rent arises because of the scarcity of land rather than the differences in fertility.
6. **No need for separate theory:** According to critics, like other prices, rent (price of land) is also determined by demand and supply. There is no need for such a separate theory for the determination of rent.

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

- ✍ A government budget is an estimate of the revenue and expenditures of a government for a specified period, usually a fiscal year. Besides receipts and expenditure, budget

also reflects the programs and policies of the government relating to growth and development of the country.

Process of Budget Formulation

The budget formulation process in Nepal involves several steps, including the following:

1. **Preparation of budget estimates:** The government agencies prepare their budget estimates for the upcoming fiscal year, based on their expected revenue and expenditures.
2. **Submission of budget proposals:** The government agencies submit their budget proposals to the Ministry of Finance, which acts as the central coordinating body for the budget formulation process.
3. **Review of budget proposals:** The Ministry of Finance reviews the budget proposals, checking for consistency with government policies, sound fiscal management practices, and feasibility.
4. **Consolidation of budget proposals:** The Ministry of Finance consolidates the budget proposals into a draft budget, which reflects the overall economic and financial position of the government.
5. **Budget presentation to the Parliament:** The draft budget is presented to the Parliament for approval, and the members of Parliament have the opportunity to review and debate the budget proposals.
6. **Approval of the budget:** The Parliament approves the budget after considering any changes or amendments that may have been proposed by the members.
7. **Implementation of the budget:** Once the budget is approved, the government agencies implement the budget, using the approved funds for their respective programs and projects.

This process of budget formulation in Nepal aims to ensure that government resources are allocated efficiently and effectively to promote economic and social development in the country.

21 or

Define protection trade. Give your arguments in favour and against of protection trade.

- ☒ Protection trade refers to a trade policy that restricts imports through the use of tariffs, quotas, or other trade barriers, in order to protect domestic producers from foreign competition.

Arguments in favor of protection trade:

1. **Infant industry argument:** Protection trade can be used to support and develop new or emerging industries in a country, allowing them to grow and become competitive in the international market.
2. **National security argument:** Protection trade can be used to support strategic industries that are deemed important for national security, such as defense-related industries.
3. **Protecting jobs argument:** Protection trade can help to protect domestic jobs by limiting the amount of foreign competition in the market.
4. **Promoting economic development argument:** Protection trade can be used to promote economic development in a country by supporting domestic industries and encouraging investment.

Arguments against protection trade:

1. **Inefficient allocation of resources:** Protection trade can lead to the inefficient allocation of resources, as domestic producers are protected from competition and do not have to innovate or become more efficient.
2. **Higher consumer prices:** Protection trade can lead to higher consumer prices, as the cost of imported goods increases, and consumers are forced to pay more for the same products.
3. **Reduced global trade:** Protection trade can reduce global trade, as other countries may also impose trade barriers in response, leading to a reduction in the flow of goods and services between countries.
4. **Discrimination against foreign producers:** Protection trade discriminates against foreign producers and can lead to retaliation from other countries, resulting in trade wars and other conflicts.

In conclusion, protection trade has both advantages and disadvantages, and each country must carefully weigh the costs and benefits when deciding whether to implement protectionist trade policies.

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

✎ The various problems faced by Nepalese foreign trade are:

1. **Lack of infrastructure:** Nepalese foreign trade is hampered by poor transportation and communication facilities, which make it difficult for businesses to access foreign markets and transport goods efficiently.
2. **Political instability:** Political instability and frequent changes in government policies have created a lack of confidence among foreign investors, making it difficult for Nepalese businesses to expand their exports.
3. **High trade barriers:** Nepalese exports face high trade barriers in foreign markets, which make it difficult for Nepalese businesses to compete with their foreign counterparts.
4. **Inefficient customs procedures:** The Nepalese customs system is inefficient, resulting in long wait times and bureaucratic delays that hinder trade.
5. **Lack of access to credit:** Nepalese businesses often lack access to credit, which makes it difficult for them to finance their exports and compete in foreign markets.
6. **Lack of marketing and promotion:** Nepalese businesses often lack the resources and expertise required for effective marketing and promotion of their products, making it difficult for them to reach foreign markets.
7. **Competition from neighboring countries:** Nepalese businesses face intense competition from neighboring countries, which often have more developed economies and better access to foreign markets.
8. **Limited diversification of exports:** Nepalese foreign trade is heavily dependent on a few key products, such as textiles and clothing, making it vulnerable to fluctuations in demand for these products.

These are some of the major challenges faced by Nepalese foreign trade, and addressing these challenges is crucial for promoting the growth of exports and the development of the Nepalese economy.