

Set IV

Group 'A'

Very Short Answer Questions

11×1 = 11

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. If total cost is Rs.1000 and total revenue is Rs.1,200, find the total profit by using formula.

- ✎ Given,

Total cost (TC) = Rs.1000

Total revenue (TR) = Rs.1,200

We know that profit (π) = TR – TC

$$= \text{Rs.1,200} - \text{Rs.1000}$$

$$= \text{Rs.200}$$

3. Define money market.

- ✎ Money market is the market for lending and borrowing of short-term funds. Its instruments are treasury bill, trade bills, etc. having maturity period less than one year. Money market has direct relation with the Central Bank.

4. Write the meaning of free trade.

- ✎ Free trade refers to the free and unrestricted movements of goods and services between countries without artificial controls such as tariffs, quotas, etc. There is no difference between domestic and foreign goods. They are treated in the same manner.

5. What is unemployment?

- ✎ Unemployment is a situation where people are willing and able to work but they are not able to find any work. There are two types of unemployment: voluntary and involuntary unemployment.

6. What is World Trade Organization (WTO)?

- ✎ The World Trade Organization (WTO) is an international organization that deals with the rules of trade between countries. It was established in 1995 as a successor to the General Agreement on Tariffs and Trade (GATT), which came into force in 1948.

7. Write is the meaning of economic growth.

- ✎ Economic growth is a process of sustained increase in the real national income, resulting in an expansion of economic activities over a long period of time. Real per capita income is the most reliable indicator of economic growth.

8. Which goal of sustainable development is related to Zero Hunger?

- ✎ Zero Hunger is related to the 2nd goal of the United Nations' Sustainable Development Goals (SDGs). The goal aims to end hunger, achieve food security, and improved nutrition and promote sustainable agriculture.

9. Write any two uses 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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10. Why primary data is more reliable than secondary data?

- ✗ Primary data is collected directly from the original sources and is firsthand information. They are also collected for the predetermine purpose. So, primary data is considered more reliable.
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11. Find the value of 'X' if the mean of given data is 8.

Income (Rs.): 4, 6, 8, X, 12

Solution:

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

$$\text{or, } 8 = \frac{4 + 6 + 8 + X + 12}{5}$$

$$\text{or, } 40 = 30 + X$$

$$\text{or, } X = 40 - 30$$

$$\therefore X = \text{Rs. } 10$$

Group 'B'

Short Answer Questions

8×5 = 40

12. Explain the features of Mixed Economy.

- ✗ A mixed economy is a type of economic system that combines elements of both a market economy and a planned economy. It is characterized by the following features:
1. **Private and public ownership:** A mixed economy allows for both private and public ownership of the means of production. This means that some industries are owned and operated by the government, while others are owned and operated by private individuals or corporations.
 2. **Market mechanism:** A mixed economy operates on the principle of supply and demand, with prices being determined by market forces. However, the government can intervene in certain markets to regulate prices or ensure that certain goods and services are available to the public.
 3. **Regulation:** A mixed economy is regulated by the government, which sets rules and regulations to ensure that the economy operates in a fair and efficient manner.
 4. **Competition:** A mixed economy encourages competition between businesses, which can lead to lower prices, better quality products, and more efficient production methods.
 5. **Social welfare programs:** A mixed economy provides a safety net for its citizens through various social welfare programs, such as unemployment benefits, healthcare, and retirement benefits.

In conclusion, a mixed economy combines the benefits of a market economy with the stability and security provided by government intervention, aiming to create a balanced and sustainable economic system.

13. 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.

14. Answer the following question on the basis of given table.

Units of goods (Q)	Price (Rs.)	Total Revenue (Rs.)	Marginal Revenue (Rs.)	Average Revenue (Rs.)
1	10	-	-	-
2	10	-	-	-
3	10	-	-	-
4	10	-	-	-
5	10	-	-	-

a. Complete the table

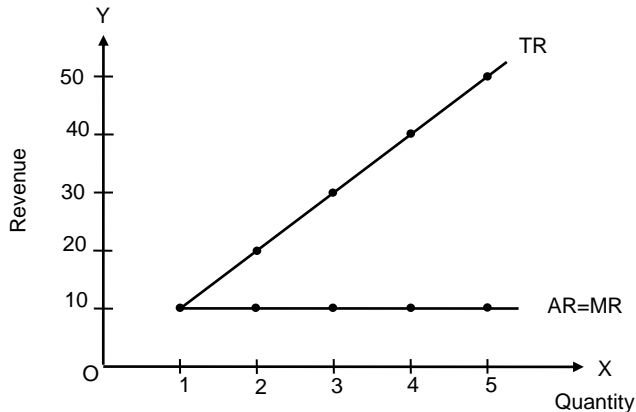
b. Construct marginal revenue and average revenue curves on the basis of completed table.

✍

a. The given table can be completed as follows:

Units of goods (Q)	Price (Rs.)	Total Revenue (Rs.)	Marginal Revenue (Rs.)	Average Revenue (Rs.)
1	10	10	10	10
2	10	20	10	10
3	10	30	10	10
4	10	40	10	10
5	10	50	10	10

- b. Construction of marginal revenue and average revenue curve from the given table



In the figure TR is the Total Revenue curve. It starts at the origin. Since the price is constant, the total revenue increases at a constant rate.

The Average Revenue (AR) or demand curve is a horizontal straight line parallel to the x-axis, indicating that the price remains constant at Rs.10 regardless of the quantity sold.

The Marginal Revenue (MR) curve coincides with the AR curve, meaning that the average revenue and marginal revenue are equal. The AR curve is therefore also the MR curve.

15. If average cost and average variable cost are Rs.30 and Rs.20 respectively. Calculate TFC at output of 10 units. Why is the short-run average cost curve U-shaped? Give reasons.

Given,

Average cost (AC) = Rs.30

Average Variable Cost (AVC) = Rs.20

At Q = 10, TFC = ?

We know that,

$$TFC = TC - TVC$$

$$\text{Or, } TFC = AC \times Q - AVC \times Q$$

$$\text{Or, } TFC = 30 \times 10 - 20 \times 10$$

$$\text{Or, } TFC = 300 - 200$$

$$\text{Or, } TFC = \text{Rs.}100$$

Causes of U-shaped short-run average cost curve

The short-run average cost curve is 'U' shaped. It means, initially it falls and after reaching the minimum point it starts rising upwards. The following are the reasons:

- a. **On the basis of AFC and AVC:** Initially, as output increases, both AFC and AVC fall due to the operation of increasing returns or diminishing costs. This leads to a decrease in average cost (AC) until it reaches the minimum point. However, after this point, any increase in output leads to an increase in AVC due to the operation of the law of diminishing returns or increasing costs. Although AFC continues to fall, the rise of AVC is more than the fall of AFC, which causes AC to rise.

- b. **On the basis of law of variable proportion:** Another factor contributing to the U-shape of the short-run average cost curve is the law of variable proportions. The shape of the curve is influenced by the degree of increasing or diminishing returns in production. When there is increasing return in production, the SAC (short-run average cost) falls, and when there is diminishing return in production, SAC rises. This results in the U-shape of the short-run average cost curve.
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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.
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17. Evaluate the efforts made for the reduction of economic inequality in Nepal.

✎ The following are some of the efforts made for the reduction of economic inequality in Nepal:

1. **Poverty Reduction Programs:** The Nepali government has implemented poverty reduction programs to improve the livelihoods of the poor.
2. **Education and Skill Development:** The government has taken measures to improve access to education and skill development opportunities.
3. **Progressive Taxation:** The government has implemented a progressive taxation system to redistribute wealth.
4. **Women's Empowerment:** Programs have been introduced to empower women and improve their socio-economic status.
5. **Land Reforms:** Land reforms have been introduced to address unequal land ownership and provide land to the landless.

18. How plan is formulated in Nepal? Describe.

✎ The process of plan formulation is explained below:

- 1. Evaluation of past plans:** The first step in plan formulation is to evaluate past plans to gain insights and make predictions for the new plan.
- 2. Collection of new project proposals:** The planning authority collects project proposals from each district and various government offices.
- 3. Discussion:** Key stakeholders such as National Development Council, NPC, Ministries, and experts hold discussions to shape the new plan.
- 4. Objectives, targets, and priorities:** The development plan should determine its objectives, targets, growth rates, and priorities in various fields of the economy.
- 5. Authorization and implementation:** The final document of the development plan is presented to National Development Council for authorization, and then implemented with the support of various stakeholders.
- 6. Monitoring and Evaluation:** NPC regularly monitors and evaluates the success or failure of the plan to determine if it meets its objectives and targets.

19. Find the standard deviation from the following data and interpret the result.

Income (Rs.)

Income (Rs.)	14	15	18	20	22	28
No. of family	4	3	4	5	2	2

Solution: Calculation of standard deviation from the given data.

Income (Rs.) (X)	No. of family (f)	fX	fX ²
14	4	56	784
15	3	45	675
18	4	72	1296
20	5	100	2000
22	2	44	968
28	2	56	1568
	N = ∑f = 20	∑fX = 373	∑fX² = 7291

Here, N = 20, ∑fX = 373, and ∑fX² = 7291

Now, Mean (\bar{X}) = $\frac{\sum fX}{N} = \frac{373}{20} = 18.65$

We know that,

$$\begin{aligned}\text{Standard Deviation } (\sigma) &= \sqrt{\frac{\sum fX^2}{N} - \left(\frac{\sum fX}{N}\right)^2} \\ &= \sqrt{\frac{7291}{20} - \left(\frac{373}{20}\right)^2} \\ &= 4.09\end{aligned}$$

Interpretation: Here, $\sigma = 4.09$. It means the average deviation of the data from the mean value (18.65) is 4.09.

Set IV Q19 or**Find the Laspeyre's price index from the given data and interpret the result.**

Types of goods	2067 BS		2077 BS	
	Price (Rs.)	Quantity (Kg)	Price (Rs.)	Quantity (Kg)
A	10	15	20	15
B	12	18	13	17
C	15	15	18	20
D	8	9	12	13

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

Types of Goods	P ₀	Q ₀	P ₁	Q ₁	P ₁ Q ₀	P ₀ Q ₀
A	10	15	20	15	300	150
B	12	18	13	17	234	216
C	15	15	18	20	270	225
D	8	9	12	13	108	72
					912	663

We know that,

Laspeyre's Price Index is

$$\begin{aligned} P_{01}(L) &= \frac{\sum P_1 Q_0}{\sum P_0 Q_0} \times 100 \\ &= \frac{912}{663} \times 100 \\ &= 137.557 \end{aligned}$$

Interpretation: There has been rise in general price level by 37.5% in comparison to the base year 2067 BS.**Group 'C'****Long Answer Questions****3×8 = 24****20. How equilibrium price and output are determined in short-run by a firm using MR-MC approach under monopoly? Explain.**

✗ Monopoly is a market situation characterized by the existence of only one seller of the product having no close substitutes.

Under monopoly, there is no difference between firm and industry. The firm can adjust price as well as output. The firm is a price-maker. But given the downward sloping demand curve, the monopolist can sell more only at lower prices. For determining the equilibrium level of output a firm must satisfy the following two conditions:

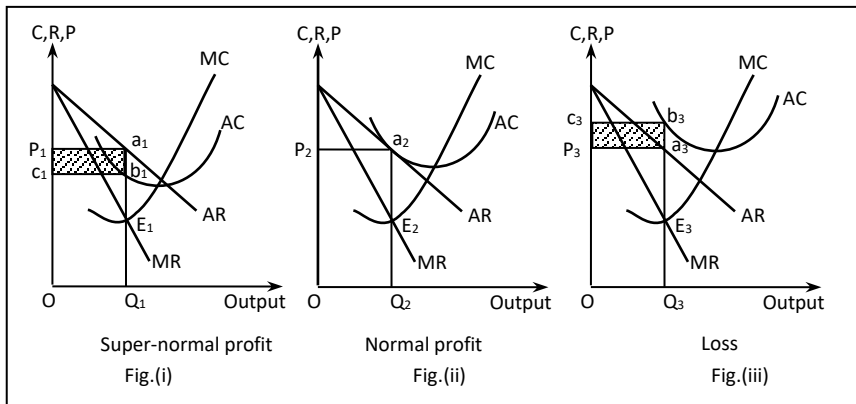
- (i) MC = MR, and
- (ii) MC must cut MR from below.

Short-run equilibrium of a firm:

In the short-run, equilibrium of the firm does not necessarily mean that it makes excess profits. Whether the firm makes 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 loss situation.

Diagrammatic Representation



These figures are explained below:

1. **Excess Profit:** In the figure (i), E_1 is the equilibrium point where there is $MC = MR$ and MC cuts MR from below. At this point,
 - Equilibrium output (Q) = OQ_1
 - Average revenue (AR) = a_1Q_1
 - Average cost (AC) = b_1Q_1
 - Here, $AR > AC$
 ∴ This is the situation of super normal profit. The area $Pa_1b_1c_1$ (shaded area) is the total profit.
2. **Normal Profit:** In the figure (ii), E_2 is the equilibrium point where there is $MC = MR$ and MC cuts MR from below. At this point,
 - Equilibrium output (Q) = OQ_2
 - Average revenue (AR) = a_2Q_2
 - Average cost (AC) = a_2Q_2
 - Here, $AR = AC$
 ∴ This is the situation of normal profit.
3. **Loss:** In the figure (iii), E_3 is the equilibrium point where there is $MC = MR$ and MC cuts MR from below. At this point,
 - Equilibrium output (Q) = OQ_3
 - Average revenue (AR) = a_3Q_3
 - Average cost (AC) = b_3Q_3
 - Here, $AR < AC$
 ∴ This is the situation of loss. The area $PE_3b_3c_3$ (shaded area) is the total loss.

21. Why public finance is considered important in an economy? Explain.

Public finance is considered important in an economy because it affects the overall economic performance and well-being of a society. Here are some reasons why public finance is important:

- 1. Resource Allocation:** Public finance helps to allocate resources in a way that promotes the general welfare and addresses social and economic issues. By providing funding for public goods and services, public finance helps to ensure that resources are used in a way that benefits the entire society.
- 2. Stimulating Economic Growth:** By financing public investments in areas such as infrastructure, research and development, and education, public finance can help to stimulate economic growth and increase productivity.
- 3. Managing Public Debt:** Public finance is also responsible for managing public debt, which is the amount of money owed by the government to its creditors. By managing public debt effectively, the government can ensure that it can continue to finance its operations and meet its obligations to its citizens.
- 4. Economic Stability:** Public finance helps to stabilize the economy by providing a source of government spending during economic downturns, which can help to mitigate the effects of recession and reduce unemployment.
- 5. Distribution of Income and Wealth:** Public finance plays a role in the distribution of income and wealth by implementing tax and transfer policies that redistribute income from high-income to low-income households. This can help to reduce poverty and improve equality in the economy.
- 6. Infrastructure Development:** Public finance provides funding for the development of infrastructure, such as roads, bridges, and public transportation, which is essential for economic growth and development.
- 7. Social Services:** Public finance provides funding for social services, such as education and health care, which are essential for the well-being of the population.

In summary, public finance is an important component of an economy because it affects the allocation of resources, the distribution of income and wealth, and the level of economic stability and growth. It plays a critical role in shaping the economic and social well-being of a country.

22. Evaluate the causes of foreign trade deficit in Nepal.

Foreign trade deficit in Nepal is the result of the country importing more goods and services than it exports. The causes of foreign trade deficit in Nepal can be attributed to several factors, including:

- 1. Dependence on imports:** Nepal is heavily dependent on imports for various essential goods, such as petroleum products, machinery, and raw materials, which contributes to the trade deficit.
- 2. Low exports:** Despite having a diverse range of products, including handicrafts, textiles, and agriculture, Nepal's exports are relatively low due to a lack of competitiveness in the international market.
- 3. Infrastructure constraints:** Poor infrastructure, such as inadequate transportation and communication systems, limits Nepal's ability to export goods and services effectively.

4. **Lack of investment in export-oriented industries:** The lack of investment in export-oriented industries has limited the growth of these sectors, reducing the country's ability to increase exports.
5. **Trade barriers:** Nepal faces trade barriers in the form of tariffs and non-tariff measures imposed by its major trading partners, reducing the competitiveness of Nepali products in the international market.
6. **Political instability:** Political instability and conflict have had a negative impact on economic growth in Nepal, making it difficult for the country to attract foreign investment and increase exports.

To reduce the foreign trade deficit in Nepal, the government needs to focus on improving the competitiveness of its exports, attracting foreign investment, and addressing the constraints faced by the country's export-oriented industries. Additionally, efforts to improve infrastructure and address political stability are also important for reducing the trade deficit.

Q.No. 22 Or Evaluate the effects of foreign employment in an economy.

- ✕ The effects of foreign employment on an economy can be evaluated from both positive and negative perspectives. Here are some of the most common effects:

Positive Effects:

1. **Remittances:** Foreign employment often leads to a significant increase in remittances, which are the funds that are sent back to the home country by migrant workers. These remittances can provide a major source of income for families and communities, and can help to support the local economy.
2. **Increased Employment:** Foreign employment can create job opportunities for workers in the home country, both directly and indirectly. For example, companies that provide services to migrant workers, such as money transfer services, can benefit from increased demand.
3. **Economic Growth:** Increased remittances and employment can lead to overall economic growth in the home country, boosting the standard of living for citizens and improving the country's overall economic stability.

Negative Effects:

1. **Brain Drain:** Foreign employment can lead to a brain drain, as skilled and educated workers leave the home country to seek better opportunities abroad. This can result in a loss of human capital and a reduction in the pool of available talent for the home country.
2. **Dependence on Remittances:** Over-dependence on remittances can make an economy vulnerable, as changes in foreign economic conditions or immigration policies can have a significant impact on the flow of funds.
3. **Family Disruptions:** Foreign employment can lead to family disruptions, as workers are often separated from their loved ones for long periods of time. This can result in emotional stress and social problems for families.
4. **Exploitation of Workers:** Migrant workers are often vulnerable to exploitation, as they may be unfamiliar with the laws and customs of the host country, or may be working in low-paying jobs with few protections.

In conclusion, while foreign employment can have both positive and negative effects on an economy, it is important for governments and organizations to work together to ensure that the benefits are shared and the risks are minimized, so that the impact of foreign employment is as positive as possible.