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SET 1

JAIBB

Principles of Economics (POE)

Subject Code :	1	0	3

Time—3 hours
Full marks—100
Pass marks—45

[N.B. The figures in the right margin indicate full marks. Answer the questions as mentioned in different parts.]

Part A—Descriptive Questions

(Answer any two questions)

Marks—20×2 = 40

1. (a) What is the law of diminishing marginal utility? How does it help explain why the demand curve slopes downward? 4+6=10

(b) What is the Production Possibility Curve (PPC)? Explain, using a diagram, how the PPC illustrates the concept of opportunity cost. 10

2. (a) What are the four major market structures? Distinguish between monopolistic competition and oligopoly. 2+8=10

(b) Assess the telecommunication industry of Bangladesh based on the features of market structure, and comment on which market structure it resembles. 10

3. (a) Describe the major tools of monetary policy used by a central bank. 10

(b) Distinguish between demand-pull and cost-push inflation. Which type best describes Bangladesh's recent inflationary experience? 4+6=10

4. (a) Define Balance of Payment (BoP). Explain its key components. 2+8=10

(b) What is Foreign Direct Investment (FDI)? Discuss the major factors that hinder FDI inflow in Bangladesh. 4+6=10

Part B—Mathematical Problem

(Answer any one question)

Marks—10×1 = 10

5. The demand and supply equations for a certain product are given below:
Qd = 100 - 4P
Qs = 20 + 6P
Where, Qd = Quantity demanded, Qs = Quantity supplied, P = Price of the product.

(a) Find the equilibrium price and quantity. 5

(b) If the Government sets a price floor at P = Tk. 10, determine whether there will be a shortage or a surplus, and at what quantity. 5

6. A person quit his job to start his own business. In his job, he earned Tk. 25,000 per month. In the first year of running the business, he earned revenue of Tk. 9,00,000.
To generate this revenue, the business incurred cost of production Tk. 4,00,000, rent Tk. 1,20,000 and wages Tk. 1,80,000. Considering the above information:

(a) What is the Accounting Profit/Loss of the person? 5

(b) What is the Economic Profit/Loss of the person? 5

Part C—Case Study

(Answer any one of two questions)

Marks—20×1 = 20

7. Review the following case study and provide concise, to-the-point responses to the subsequent questions. Responses should be expressed with clarity and precision.

In 2025, to stabilize the exchange rate, Bangladesh Bank shifted from a managed float to a 'crawling peg' system for the Taka against the US Dollar, allowing the rate to move within a narrow pre-announced band. The central bank argued this would reduce volatility, protect exporters and importers from sudden shocks, and gradually align the official rate with the market rate without a single large devaluation. Critics pointed out that the crawling peg requires continuous intervention and a sizeable reserve buffer, and that if remittance or export earnings weaken, the central bank may struggle to defend the band, eventually forcing a disorderly adjustment. Bankers noted that greater predictability in the exchange rate has already helped importers plan letter of credit (LC) settlements, while some exporters felt the Taka remained slightly overvalued compared to regional competitors.

(a) What is a crawling peg exchange rate system? 2

(b) In your own words, explain how a crawling peg differs from a fully floating exchange rate. 3

(c) How does exchange rate predictability benefit importers using letter of credit (LC) settlements? 4

(d) Analyze what could happen if remittance and export earnings weaken while the central bank is defending the crawling peg band. 5

(e) Do you think a crawling peg is a suitable long-term exchange rate policy for Bangladesh? Give your reasoned opinion. 6

8. Review the following case study and provide concise, to-the-point responses to the subsequent questions. Responses should be expressed with clarity and precision.

Over the past few years, agent banking has expanded rapidly across rural Bangladesh, allowing commercial banks to offer deposit, withdrawal, remittance disbursement, and small loan services through local agents instead of full-fledged branches. For many farmers and small traders in remote unions, the nearest agent outlet is now closer than the nearest bank branch, cutting travel cost and time. Banks have found agent banking cheaper to operate than opening new branches, while regulators see it as a key tool for financial inclusion. However, concerns remain about agents' limited liquidity to handle large withdrawals, the risk of fraud due to less rigorous KYC enforcement at the agent level, and whether agent banking is diverting low-cost rural deposits away from formal branch banking without adding proportional value.

(a) What is agent banking? 2

(b) How has agent banking improved financial access for rural populations? 3

(c) What operational risks arise from limited liquidity and weaker KYC enforcement at the agent level? 4

(d) Analyze how agent banking contributes to financial inclusion while potentially competing with formal branch banking for deposits. 5

(e) What steps would you recommend for banks to make agent banking both safe and sustainable in the long run? 6

Part D—Understanding Terminology

(Answer any five questions)

Marks—2×5 = 10

9. Answer any five questions:

(a) Distinguish between normative and positive economics. 2

(b) Differentiate between fixed exchange rate and flexible exchange rate. 2

(c) What are the differences between economic cost and accounting cost? 2

(d) Distinguish between monopoly and monopolistic competition. 2

(e) What is the difference between direct tax and indirect tax? 2

(f) Differentiate between M1 and M2 money supply. 2

(g) Distinguish between trade deficit and trade surplus. 2

(h) What are the differences between frictional and structural unemployment? 2

Part E—Short Questions

(Answer any five questions)

Marks—4×5 = 20

10. Answer any five questions:

(a) Explain the circular flow of income model in economics. 4

(b) What is market equilibrium? Explain using a graph. 4

(c) Explain the concept of consumer surplus. 4

(d) What is the 'crowding out' effect? 4

(e) Define seigniorage. 4

(f) Explain economies of scale. 4

(g) What is the Gini Coefficient used for? 4

(h) How does financial inclusion contribute to economic growth? 4
