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SET 2

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) Explain the law of demand and the law of supply. 4+6=10

(b) What is an Indifference Curve? Explain its main properties. 10

2. (a) What is Perfect Competition? Explain the underlying assumptions of a perfectly competitive market. 2+8=10

(b) 'In monopoly there is no supply curve'—Explain. 10

3. (a) Define fiscal policy. Discuss its major tools. 10

(b) What is the 'crowding out' effect? How does government borrowing cause it? 4+6=10

4. (a) Define Gross Domestic Product (GDP) and Gross National Product (GNP). Distinguish between them. 2+8=10

(b) What is inflation? Explain demand-pull and cost-push inflation with a diagram. 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 = 120 - 3P
Qs = 30 + 2P
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 ceiling at P = Tk. 15, determine whether there will be a shortage or a surplus, and at what quantity. 5

6. A bank offers a nominal interest rate of 10% per year on a savings account. During the same period, the inflation rate is 6%. Using this information:

(a) Calculate the real interest rate. 5

(b) If the inflation rate unexpectedly rises to 12%, what will be the new real interest rate? What does this imply for savers? 5
Hints: Real interest rate = [(1 + Nominal interest rate) / (1 + Inflation)] - 1

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.

Mobile Financial Services (MFS) providers in Bangladesh have begun offering small, short-tenor 'nano-loans' directly through mobile wallets, using a customer's transaction history rather than traditional collateral to assess creditworthiness. Micro-entrepreneurs and rickshaw-pullers who previously had no access to formal credit have used these loans to buy inventory or repair vehicles, often repaying within 30 to 90 days. Because approval is automated and instant, uptake has been rapid, but default rates have also been rising among first-time borrowers who are unfamiliar with loan terms and repayment obligations. Regulators are now considering caps on loan size, mandatory disclosure of effective interest rates, and stronger digital financial literacy campaigns before allowing further expansion of nano-lending.

(a) What is a nano-loan in the context of MFS? 2

(b) How does alternative credit scoring using transaction history differ from traditional collateral-based lending? 3

(c) Why might default rates be rising among first-time nano-loan borrowers? 4

(d) Analyze the trade-off regulators face between promoting financial inclusion and protecting borrowers from over-indebtedness. 5

(e) What measures would you propose to make nano-lending both inclusive and safe? 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.

Bangladesh's Ready-Made Garments (RMG) sector periodically revises its minimum wage board rates for workers. Owners argue that a sharp increase in the wage floor raises unit labour cost at a time when global buyers are already negotiating lower prices, threatening the competitiveness of factories against regional rivals such as Vietnam and Cambodia. Labour groups counter that current wages have not kept pace with the cost of living in industrial areas, leading to high worker turnover and occasional unrest. Economists note that a well-designed wage floor can raise worker productivity and reduce turnover costs for factories, while a poorly calibrated one, set well above the market-clearing wage, could reduce employment or accelerate automation in some factories.

(a) What is a wage floor (minimum wage)? 2

(b) In your own words, explain why factory owners are concerned about competitiveness. 3

(c) Using demand and supply reasoning, explain what happens to employment if the wage floor is set above the market-clearing wage. 4

(d) Analyze how a well-designed minimum wage could benefit both workers and factory owners. 5

(e) What would you recommend to balance worker welfare with the RMG sector's international competitiveness? 6

Part D—Understanding Terminology

(Answer any five questions)

Marks—2×5 = 10

9. Answer any five questions:

(a) Distinguish between microeconomics and macroeconomics. 2

(b) Differentiate between normal goods and inferior goods. 2

(c) What is the difference between open market operations and the cash reserve requirement (CRR)? 2

(d) Distinguish between GDP and GNP. 2

(e) What are the differences between explicit cost and implicit cost? 2

(f) Differentiate between progressive tax and proportional tax. 2

(g) Distinguish between the money market and the capital market. 2

(h) What is the difference between the current account and the capital account? 2

Part E—Short Questions

(Answer any five questions)

Marks—4×5 = 20

10. Answer any five questions:

(a) Explain the concept of opportunity cost with an example. 4

(b) What is price elasticity of demand? 4

(c) Explain externality with an example. 4

(d) What is financial deepening? 4

(e) What is the SMART rate? 4

(f) Explain economies of scale. 4

(g) What is moral hazard in the banking industry? 4

(h) Explain the role of the central bank as a 'lender of last resort'. 4
