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SET 4

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 concept of scarcity and the problem of choice. 4+6=10

(b) What is Production Possibility Curve (PPC)? What happens to the PPC of an economy if there is an improvement in technology? Explain with a diagram. 10

2. (a) What are the four factors of production? Briefly discuss the reward earned by each. 2+8=10

(b) Assess the banking industry of Bangladesh based on the features of market structure, and comment on the market structure of the banking sector. 10

3. (a) Distinguish between direct finance and indirect finance. Why do surplus units often prefer indirect finance over direct finance? 10

(b) What is a pegged exchange rate system? What are its limitations? 4+6=10

4. (a) Define unemployment. Discuss the different types of unemployment. 2+8=10

(b) Discuss the channels through which the banking industry contributes to the economic growth of Bangladesh. 4+6=10

Part B—Mathematical Problem

(Answer any one question)

Marks—10×1 = 10

5. A person quit his job to start his own business. In his job, he earned Tk. 30,000 per month. In the first year of running the business, he earned revenue of Tk. 12,00,000.
To generate this revenue, the business incurred cost of production Tk. 5,50,000, rent Tk. 1,50,000 and wages Tk. 2,20,000. 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

6. Bangladesh Bank published the following macroeconomic data for a fiscal year:
Currency in circulation (C) = Tk. 3,000 billion
Demand Deposits (DD) = Tk. 4,500 billion
Time Deposits (TD) = Tk. 10,000 billion
GDP at current market prices = Tk. 45,000 billion

(a) Calculate the M1 money supply (M1 = C + DD). 5

(b) Calculate the M2 money supply (M2 = M1 + TD) and the standard monetization ratio (M2 / GDP) x 100. 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.

Interoperability among Mobile Financial Services (MFS) providers, banks, and e-wallets allows a customer of one provider to send money directly to a customer of another provider without cashing out first. Since its rollout in Bangladesh, transaction volumes routed through interoperable channels have grown steadily, and small merchants report faster settlement and lower reliance on physical cash. The central bank views interoperability as central to deepening financial inclusion, since it reduces the incentive for customers to hold multiple wallets just to reach different counterparties. At the same time, providers have raised concerns about revenue sharing and the cost of maintaining interoperable infrastructure, and some smaller players worry that larger MFS providers will capture a disproportionate share of transaction volume once switching costs for customers disappear.

(a) What is interoperability among MFS providers? 2

(b) How does interoperability reduce the need for customers to hold multiple wallets? 3

(c) Why might smaller MFS providers be concerned about interoperability? 4

(d) Analyze how interoperability could affect financial inclusion and market competition simultaneously. 5

(e) What policy safeguards would you recommend to ensure smaller providers are not squeezed out under interoperability? 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 foreign exchange reserves have risen steadily over recent months, supported by strong inflows of remittance and a narrowing trade deficit. According to Bangladesh Bank data, expatriate Bangladeshis sent a record amount in a single month recently, and the central bank has also been purchasing dollars from commercial banks to build reserves without relying on external borrowing. Officials describe this as a more sustainable path to reserve adequacy than depending on loans from international agencies. However, analysts caution that remittance inflows can be volatile, often linked to global labour market conditions and exchange rate expectations, and that a sudden slowdown in remittances could quickly reverse recent reserve gains.

(a) What is a foreign exchange reserve? 2

(b) Why is a foreign exchange reserve important for an economy? 3

(c) What domestic or global factors might explain the recent increase in remittance inflows? 4

(d) What could be the short-term and long-term impacts of the central bank purchasing dollars from commercial banks? 5

(e) If remittance inflows were to decline suddenly, how effective would this reserve-building strategy remain? Explain. 6

Part D—Understanding Terminology

(Answer any five questions)

Marks—2×5 = 10

9. Answer any five questions:

(a) Distinguish between absolute advantage and comparative advantage. 2

(b) Differentiate between Traditional banking and Online banking. 2

(c) What is the difference between a tariff and a quota? 2

(d) Distinguish between balance of trade and balance of payment. 2

(e) What are the differences between nominal GDP and real GDP? 2

(f) Differentiate between liquidity risk and solvency risk. 2

(g) Distinguish between crawling peg and fixed peg exchange rate systems. 2

(h) What is the difference between consumer surplus and producer surplus? 2

Part E—Short Questions

(Answer any five questions)

Marks—4×5 = 20

10. Answer any five questions:

(a) Explain the law of supply. 4

(b) Explain positive and negative externality with an example. 4

(c) What is financial deepening? 4

(d) Explain open market operations as a monetary policy tool. 4

(e) What is the Gini Coefficient? 4

(f) Discuss agent banking in Bangladesh. 4

(g) What is an 'inflation tax'? 4

(h) Explain the role of subsidy in correcting positive externality. 4
