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SET 5

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 positive and normative economics with examples. 4+6=10

(b) Explain the circular flow model of income in economics. 10

2. (a) What is monopolistic competition? How does it differ from perfect competition? 2+8=10

(b) Discuss why a perfectly competitive firm earns only a normal profit in the long run. Explain with a diagram. 10

3. (a) What is Value Added Tax (VAT)? Explain the effect of VAT on equilibrium price and quantity. 10

(b) Distinguish between progressive and regressive tax systems. 4+6=10

4. (a) What is a Foreign Exchange Reserve? Discuss the major factors affecting Bangladesh's reserve position. 2+8=10

(b) Explain the causes and impact of currency depreciation on an economy. 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 = 90 - 2P
Qs = 15 + 3P
Where, Qd = Quantity demanded, Qs = Quantity supplied, P = Price of the product.

(a) Find the equilibrium price and quantity. 5

(b) If a Tk. 5 per-unit tax is imposed on the seller, the new supply equation becomes Qs = 15 + 3(P-5). Find the new equilibrium price and quantity. 5

6. Suppose the interest rate on a taxable corporate bond is 13% and the marginal tax rate is 35%. A tax-free bond with a rate of 9% is also available to buy.

(a) Calculate the after-tax return on the taxable corporate bond. 5

(b) Which security would you choose to buy, and why? 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.

Faced with a sharp rise in global fuel prices, the government of a country similar to Bangladesh withdrew a long-standing subsidy on diesel and kerosene to reduce fiscal pressure. The move immediately raised transport and irrigation costs, which passed through to the prices of rice and vegetables within weeks. The central bank, already fighting elevated inflation, raised its policy rate further, while the government introduced a targeted cash-transfer program for low-income households to cushion the impact. Economists were divided: some argued the subsidy withdrawal was a necessary and overdue fiscal correction that would improve long-run resource allocation, while others warned that removing the subsidy during a period of already-high inflation risked a deeper squeeze on the poorest households, especially before the targeted cash-transfer program was fully operational.

(a) What is a fuel subsidy, and why do governments provide it? 2

(b) In your own words, explain how the removal of a fuel subsidy can raise food prices through transport and irrigation costs. 3

(c) Why might raising the policy interest rate be an appropriate response to this situation? 4

(d) Analyze the trade-off the government faces between fiscal discipline and protecting low-income households. 5

(e) Do you think the timing of the subsidy withdrawal was appropriate? Justify your answer. 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.

Bank loan growth to the private sector recently fell to one of its lowest levels in years, even as headline inflation began to ease slightly. Analysts attribute the slowdown to a combination of factors: banks have found investing in high-yield government treasury bills and bonds more attractive and less risky than lending to businesses, tighter regulatory scrutiny has made banks more cautious about credit risk, and many businesses have postponed expansion plans amid economic uncertainty. Policymakers are concerned because private sector credit historically drives much of the country's job creation and industrial output. Without a pickup in private investment, some economists warn that overall economic growth could remain below potential even if inflation is brought under control.

(a) What is meant by 'private sector credit growth'? 2

(b) Why might banks prefer investing in government treasury bills and bonds over lending to private businesses? 3

(c) Why is private sector credit growth important for a country's overall economic growth? 4

(d) Analyze how tighter regulatory scrutiny and rising government borrowing could jointly 'crowd out' private investment. 5

(e) What measures would you suggest to revive private sector credit growth without compromising financial stability? 6

Part D—Understanding Terminology

(Answer any five questions)

Marks—2×5 = 10

9. Answer any five questions:

(a) Distinguish between market economy and command economy. 2

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

(c) Distinguish between monopoly and monopsony. 2

(d) Differentiate between capital account and current account. 2

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

(f) Distinguish between inflation and deflation. 2

(g) What are the differences between T-bill and T-bond? 2

(h) Differentiate between money supply and money demand. 2

Part E—Short Questions

(Answer any five questions)

Marks—4×5 = 20

10. Answer any five questions:

(a) Distinguish between price ceiling and price floor. 4

(b) Explain the law of diminishing marginal utility. 4

(c) Explain the multiplier effect in an economy. 4

(d) What is structural unemployment? 4

(e) Explain the role of Bangladesh Bank in controlling inflation. 4

(f) How does artificial intelligence affect the banking system? 4

(g) Explain green finance. 4

(h) What is income inequality, and how is it measured? 4

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