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SET 7

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 are the three basic questions every economy must answer? Briefly explain. 4+6=10

(b) Explain income effect and substitution effect with examples. 10

2. (a) What is monopoly? Explain, with reasoning, why there is no supply curve in monopoly. 2+8=10

(b) What is collusion? Why is it very difficult to maintain an oligopoly cartel? 10

3. (a) Define National Income. Explain the expenditure method of computing National Income. 10

(b) What is the consumption function? Explain its relevance in macroeconomic analysis. 4+6=10

4. (a) What is inflation? Distinguish between demand-pull and cost-push inflation. 2+8=10

(b) Discuss the recent monetary policy stance of Bangladesh Bank and its rationale. 4+6=10

Part B—Mathematical Problem

(Answer any one question)

Marks—10×1 = 10

5. When the price of a product falls from Tk. 80 to Tk. 70, the quantity demanded rises from 300 units to 360 units.

(a) Calculate the price elasticity of demand and classify the good as elastic or inelastic. 5

(b) Based on your answer, what will happen to the seller's total revenue as a result of this price decrease? Explain. 5

6. A typical consumer basket contains the following items:
Item: Rice — Quantity: 12 kg — Price in base year (2022): Tk. 58 per kg — Price in current year (2026): Tk. 72 per kg
Item: Lentils — Quantity: 3 kg — Price in base year (2022): Tk. 110 per kg — Price in current year (2026): Tk. 145 per kg
Item: Transport — Quantity: 30 trips — Price in base year (2022): Tk. 14 per trip — Price in current year (2026): Tk. 18 per trip

(a) Compute the Consumer Price Index (CPI) for 2026. 5

(b) Calculate the inflation rate between 2022 and 2026. 5

Hints: CPI = [Cost of basket in current year / Cost of basket in base year] x 100; Inflation = [(CPI current year - CPI base year) / CPI base year] x 100; Base year CPI 2022 = 100.

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.

Bangladesh's import bill has remained elevated in recent years, driven largely by fuel imports for power generation and capital machinery imports for ongoing infrastructure projects. Export earnings, concentrated heavily in ready-made garments, have grown more slowly than imports, widening the trade deficit. To manage the resulting pressure on foreign exchange reserves, the central bank has at times tightened import documentation requirements and encouraged banks to prioritize LCs for essential goods. Economists note that while fuel and machinery imports raise near-term deficits, machinery imports in particular can boost future export capacity if invested wisely, meaning the trade deficit is not automatically a sign of economic weakness. However, persistent deficits funded by reserve drawdown or external borrowing are not sustainable indefinitely.

(a) What is a trade deficit? 2

(b) In your own words, explain why fuel imports and capital machinery imports have both contributed to the trade deficit. 3

(c) Why might capital machinery imports be viewed differently from consumption goods imports in assessing the sustainability of a trade deficit? 4

(d) Analyze how tightening import documentation requirements could affect both the trade deficit and domestic business activity. 5

(e) What measures would you recommend to narrow the trade deficit without harming productive investment? 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.

A growing number of commercial banks in Bangladesh now offer education loans to help students finance tuition, both for study within the country and abroad. Banks view these loans as a way to build long-term customer relationships, since successful graduates often become higher-income clients later. However, education loans carry unique risks: the 'collateral' is largely the borrower's future earning potential rather than a physical asset, and repayment typically only begins after graduation, when the borrower's income is still uncertain. Some banks have introduced income-linked repayment schedules to reduce default risk, while policymakers have discussed whether a partial government guarantee could encourage banks to lend more freely to students from lower-income families who otherwise lack access to such financing.

(a) What is an education loan? 2

(b) Why is an education loan riskier for a bank than a loan backed by physical collateral? 3

(c) How could an income-linked repayment schedule reduce default risk for education loans? 4

(d) Analyze how a partial government guarantee could change banks' willingness to lend to students from lower-income families. 5

(e) What would you recommend to expand access to education financing while keeping default risk manageable for banks? 6

Part D—Understanding Terminology

(Answer any five questions)

Marks—2×5 = 10

9. Answer any five questions:

(a) Distinguish between income effect and substitution effect. 2

(b) What are the differences between monopoly and monopolistic competition? 2

(c) Distinguish between national income and personal income. 2

(d) Differentiate between the expenditure method and the income method of computing national income. 2

(e) What is the difference between explicit cost and implicit cost? 2

(f) Distinguish between managed floating exchange rate and free floating exchange rate. 2

(g) What are the differences between direct tax and indirect tax? 2

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

Part E—Short Questions

(Answer any five questions)

Marks—4×5 = 20

10. Answer any five questions:

(a) Explain the law of demand. 4

(b) Explain the concept of consumer surplus. 4

(c) What is the SMART rate? 4

(d) What is financial deepening? 4

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

(f) Explain economies of scale. 4

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

(h) Explain the role of Bangladesh Bank as a regulator of Mobile Financial Services (MFS). 4

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