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SET 9

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 positive and normative economics? Give an example of each. 4+6=10

(b) Explain the relationship between Total Utility (TU) and Marginal Utility (MU) with a diagram. 10

2. (a) What are the four factors of production? Briefly explain the reward each factor earns. 2+8=10

(b) 'A perfectly competitive firm earns zero economic profit in the long run'—Explain why and how. 10

3. (a) Distinguish between expansionary and contractionary monetary policy. 10

(b) What is Central Bank independence? Discuss its importance for macroeconomic stability. 4+6=10

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

(b) What is a Foreign Exchange Reserve? Discuss its importance for a country like 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 = 60 - P
Qs = 10 + 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 at P = Tk. 12, determine whether there will be a shortage or a surplus, and at what quantity. 5

6. A person quit his job to start a small manufacturing unit. In his job, he earned Tk. 35,000 per month. In the first year of running the unit, he earned revenue of Tk. 11,00,000.
To generate this revenue, the unit incurred cost of raw materials Tk. 4,80,000, factory rent Tk. 1,80,000 and wages Tk. 2,40,000. 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.

To make borrowing cheaper for households and small businesses, policymakers in some countries periodically debate imposing a cap on the interest rate banks may charge on loans. Supporters argue that a rate cap would protect borrowers from predatory lending and make credit more affordable, particularly for small and medium enterprises. Banking sector representatives counter that a binding interest rate cap could make lending to riskier borrowers unprofitable, causing banks to simply deny credit to precisely the small businesses and low-income households the policy intends to help, pushing them toward informal, unregulated lenders who often charge far higher effective rates. Central bank officials have also noted that an interest rate cap could interfere with monetary policy transmission, since banks would have less room to adjust loan pricing in response to policy rate changes.

(a) What is an interest rate cap? 2

(b) Why might supporters argue that an interest rate cap protects small businesses and low-income households? 3

(c) Why might banks respond to a binding interest rate cap by denying credit rather than lending at the capped rate? 4

(d) Analyze how an interest rate cap could interfere with monetary policy transmission. 5

(e) Do you think an interest rate cap is a good policy tool for expanding credit access? 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.

E-commerce sales in Bangladesh have grown rapidly, with small online sellers operating through social media pages and dedicated marketplace platforms. Many of these sellers operate informally, with limited bookkeeping and inconsistent Value Added Tax (VAT) collection, making it difficult for tax authorities to track transaction volumes accurately. Marketplace platforms have been asked to share seller transaction data with tax authorities to improve compliance, but many small sellers argue that formal VAT registration and reporting requirements impose a disproportionate administrative burden relative to their thin margins. Meanwhile, larger, VAT-compliant retailers argue that the current situation creates unfair competition, since informal online sellers can effectively undercut them on price by avoiding VAT.

(a) What is Value Added Tax (VAT)? 2

(b) Why is VAT collection difficult to enforce among small, informal online sellers? 3

(c) How does inconsistent VAT enforcement create unfair competition for VAT-compliant retailers? 4

(d) Analyze the trade-off between improving VAT compliance and avoiding excessive administrative burden on small sellers. 5

(e) What measures would you recommend to improve VAT compliance in e-commerce without discouraging small online sellers? 6

Part D—Understanding Terminology

(Answer any five questions)

Marks—2×5 = 10

9. Answer any five questions:

(a) Distinguish between positive economics and normative economics. 2

(b) What is the difference between ordinal utility and cardinal utility? 2

(c) Distinguish between expansionary and contractionary monetary policy. 2

(d) Differentiate between GDP and GNP. 2

(e) What are the differences between monopoly and perfect competition? 2

(f) Distinguish between explicit cost and implicit cost. 2

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

(h) Distinguish between fixed exchange rate and flexible exchange rate. 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 break-even point of a firm. 4

(d) Explain the different types of unemployment. 4

(e) Define Balance of Payment (BoP). 4

(f) Discuss Mobile Financial Services (MFS) in Bangladesh. 4

(g) Explain economies of scale. 4

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