Disclaimer : I DO NOT claim or guarantee whether the answer written here is 100% accurate. If you feel something is not accurate or out-of-order, it will be a great help, if you let me know. You know how to find me.
Note: Those question which are crossed (i.e strikethrough) refer to repeated question which has been solved/answered already. **Author : Pranav Bhattarai**

Fall 2019

1 a) Define Microeconomics. Explain the importance and uses of microeconomics.
Microeconomics is the study of individuals, households and firms' behavior in decision making and allocation of resources. It generally applies to markets of goods and services and deals with individual and economic issues.

Microeconomics study deals with what choices people make, what factors influence their choices and how their decisions affect the goods markets by affecting the price, the supply and demand.

The importance and used of microeconomics are enlisted below:

1. *Helpful in the Development of International Trade*
   Microeconomics is used to explain the gains from international trade, balance of payment disequilibrium and the determination of foreign exchange rate.
2. *Helpful in Understanding the Implications of Taxation*
   Microeconomics is also helpful in understanding the implication of taxation. It helps in explaining as to whether an income tax leads to decrease in the social welfare or an excise duty or sales duty. It is the imposition of an excise duty or sales tax that leads to the decrease in social welfare rather than income tax.
3.

1 b) Decompose the price effect in to substitution effect and income effect with the help of indifference curve in the case of normal good.

2 a) Define price elasticity of demand. Discuss about the different types of price elasticity of demand with their application.

2 b) Define an opportunity cost. Given the short run total cost function, $TC=100+60Q-120Q^{3.}$. When Q=10, find: TFC. TVC, AFC, AVC,ATC and MC.
Opportunity cost is the value of the next best alternative that is given up to engage in an activity or exchange.

3 a) Explain and illustrate the effect of indirect tax and subsides on the market equilibrium under perfect competition market.
3 b) Explain and illustrate the effect of indirect tax and subsides on the market equilibrium under perfect competition market.
4 a) What do you mean by Linear programming? Discuss its essential components.
4 b) Explain why the demand for a factor is a derived demand. Find out the market demand curve for labour under perfect competition market.
5 a) Define national income. Discuss the difficulties of the measurement of NI.
5 b) The size of the multiplier varies directly with the size of marginal propensity to consume. Explain.
6 a) What do you mean by foreign direct investment (FDI)? Explain its role in the economic development of Nepal.
OR
Define economic development. Explain the major challenges and prospects of economic development of Nepal.

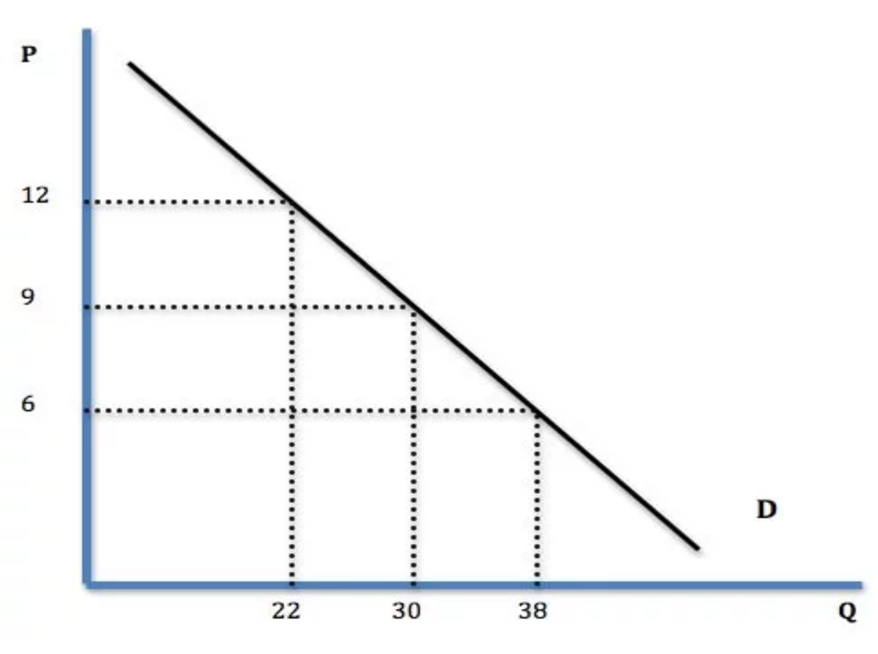
6 b) Distinguish between fixed exchange rate and floating exchange rate. Explain how foreign exchange rate in determined.
7 Write short notes on *any two*:
a) Objective of monetary policy
b) Phases of Business Cycle

iii) Effective demand
Effective demand refers to the willingness and ability of consumers to purchase goods at different prices. It shows the amount of goods that consumers are actually buying – supported by their ability to pay.

Effective demand excludes latent demand – where the willingness to purchase goods may be limited by the inability to afford it – or lack of knowledge.

In Keynes's macroeconomic theory, effective demand is the point of equilibrium where aggregate demand = aggregate supply. The importance of Keynes' view is that effective demand may be insufficient to achieve full employment due to unemployment and workers without income to produce unsold goods.

Demand curve showing individual's effective demand



In this case, the consumer will be willing and able to purchase 22 goods when the price is £12.

Factors affecting effective demand.

The main factors affecting 'effective demand' will be

1. Price

2. Income – a rise in income will tend to cause rising demand.

Availability of credit. If consumers and firms are able to borrow, then they have an effective demand to buy or invest. If credit is constrained, their effective demand is limited by the lack of access to credit.

2018 Spring

1 a) Explain the concept of micro statics and micro dynamics with suitable diagrams.
1 b) How price effect can be decomposed into substitution effect and income effect explain with the help of indifference curve analysis in case of normal goods.
2 a) Compute total cost, average variable cost, average cost and marginal cost out of the following information. The total fixed cost is 200. All cost are in the Rs. and quality of production is in Kg.

Quality of production	0	1	2	3	4	5	6	7	8
TVC	0	50	90	120	140	175	230	310	400

2 b) Define Revenue. Show the relationship among AR, MR and TR curves for a product under monopoly market.
3 a) Enumerate the main features of Cobb-Douglas Production function.
3 b) What is market equilibrium? Show the effect of tax and subsidy upon market equilibrium price and quantity.
4 a) Why is the demand for factor input known as derived demand? Explain the modern theory of factor pricing.
4 b) Define national income. Discuss about the difficulties in the measurement of national income in countries like Nepal.
5 a) Explain the principle of effective demand to determine level of employment.
5 b) 'Saving is private virtue but public vice'. Justify the statement.
6 a) What do you mean by foreign direct investment (FDI)? Explain its role in economic development of Nepal.
OR
Define economic development. Explain the major challenges and prospects of economic development of Nepal.
6 b) Distinguish between fixed exchange rate and floating exchange rate. Explain how foreign exchange rate is determined in the market.
7) Write short notes on any two:
a) Fiscal Policy
Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. Using a mix of monetary and fiscal policies, governments can control economic phenomena.

~~b) Business Cycle~~
The Business Cycle refers to the ups and downs in the economic activities that the economy experiences over a period of time. Generally, the business cycle is the upward and downward movement in the level of GDP reflected by the fluctuations in the aggregate economic magnitudes Viz. Total production, employment, investment, wages, etc.

c) BIMSTEC
BIMSTEC is an international organization of seven nations of South Asia and South East Asia. It stands for *The Bay of Bangal Initiative for Multi-Sectoral Technical and Economic Cooperation*. The group formed in 1997 consists of Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar and Thailand.

2018 Fall

1 a) Define Micro and Macro Economics. Show three differences between them.

1 b) Explain and illustrate the customer's equilibrium with the help of indifference Curve Analysis.
2 a) Define an opportunity cost. Given the following TVC schedule and TFC is Rs. 200. Compute AFC, AVC, ATC, MC and TC.

Quality (in Kg)	1	2	3	4	5	6	7
TVC (in Rs.)	90	150	190	215	255	330	450

2 b) Define total, average and marginal revenue. Show the relationship among, average and marginal revenue curve under imperfect competition market.
3 a) Define Cobb-Douglas production function. Explain its properties.

3 b) What is market equilibrium? Show the effect of tax and subsidy upon market equilibrium and price.

4 a) Define factor pricing. Explain the modern theory of factor pricing.

4 b) Define national income. Explain how national income is measured by expenditure method.
5 a) How the level of employment and output is determined according to Keynesian principle of effective demand? Illustrate with diagram.
5 b) What is propensity to save? Explain the concept of Paradox of Thrift.
Propensity to save refers to the proportion of total income or of an increase in income that consumers save rather than spend on goods and services. The average propensity to save equals the ratio of total saving to total income; the marginal propensity to save equals the ratio of a change in saving to a change in income. The sum of the propensity to consume and the propensity to save always equals one.

Paradox of thrift was popularized by the renowned economist John Maynard Keynes.

It states that individuals try to save more during an economic recession, which essentially leads to a fall in aggregate demand and hence fall in economic growth. Such a situation is harmful for everybody as investments since it gives lower returns than in normal days. In this situation, mass increase in savings eventually hurts economy as a whole.

6 a) Explain the concept of privatization, liberalization and globalization in the context of Nepalese economy.
Nepal formally adopted the policy of liberalization, privatization and globalization after the restoration of multiparty democracy in the early 1990s as the forerunner of globalization in the South Asian region. The accession of Nepal to the WTO in 2004 accelerated the process of globalization. However, in the past two decades or so, Nepal has experienced a few success stories as well as cases of failure and frustrated expectations, which clearly highlight the need to assess the whole process of globalization.

Privatization
The transfer of ownership, property or business from the government to the private sector is termed privatization. The government stops from being the owner of the entity or business.
The process in which a publicly-traded company is taken over by a few people is also called privatization. The stock of the company is no longer traded in the stock market and the general public is barred from holding stake in such a company. The company gives up the name 'limited' and starts using 'private limited' in its last name.

Liberalization
Liberalization, the loosening of government controls. It refers to reductions in restrictions on international trade and capital. Liberalization is often treated as synonymous with deregulation—that is, the removal of state restrictions on business. In principle the two are distinct (in that liberalized markets can still be subject to government regulations—for example, to protect consumers), but in practice both terms are generally used to refer to the freeing of markets from state intervention.

Globalization
Globalization is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade.

On the upside, it can raise the standard of living in poor and less developed countries by providing job opportunity, modernization, and improved access to goods and services. On the downside, it can destroy job opportunities in more developed and high-wage countries as the production of goods moves across borders.

Nepal has gained some genuine benefits and opportunities from globalization, but in small areas and amounts. As economic reports and indicators reveal, the per capita GNI (Gross National Income) increased from $185 in 1990 to $721 in 2015 and the size of the GDP has expanded manifold since then. Furthermore, the extent of absolute poverty has reduced from 49 per cent to 23.8 per cent during that period. Though many factors may be responsible behind the historical transformation of Nepali economy, it would be prudent to analyze this phenomenon vis-a-vis globalization.

6 b) What is adjustable 'Peg' System? How the rate of foreign exchange is determined under floating exchange system?
An adjustable peg is an exchange rate policy in which a currency is pegged or fixed to a major currency such as the U.S. dollar or euro but can be readjusted to account for changing market conditions. The periodic adjustments are usually intended to improve the country's competitive position in the export market.

A floating exchange rate is a regime where the currency price of a nation is set by the **forex** market based on supply and demand relative to other currencies. The floating rate is usually determined by the open market through supply and demand. Therefore, if the demand for the currency is high, the value will increase. If demand is low, this will drive that currency price lower.

7) Write short notes on any two:
a) Objectives of monetary policy
Monetary policy is a set of economic policy that manages the size and growth rate of the money supply in an economy. It is a powerful tool to regulate macroeconomic variables such as inflation and unemployment.

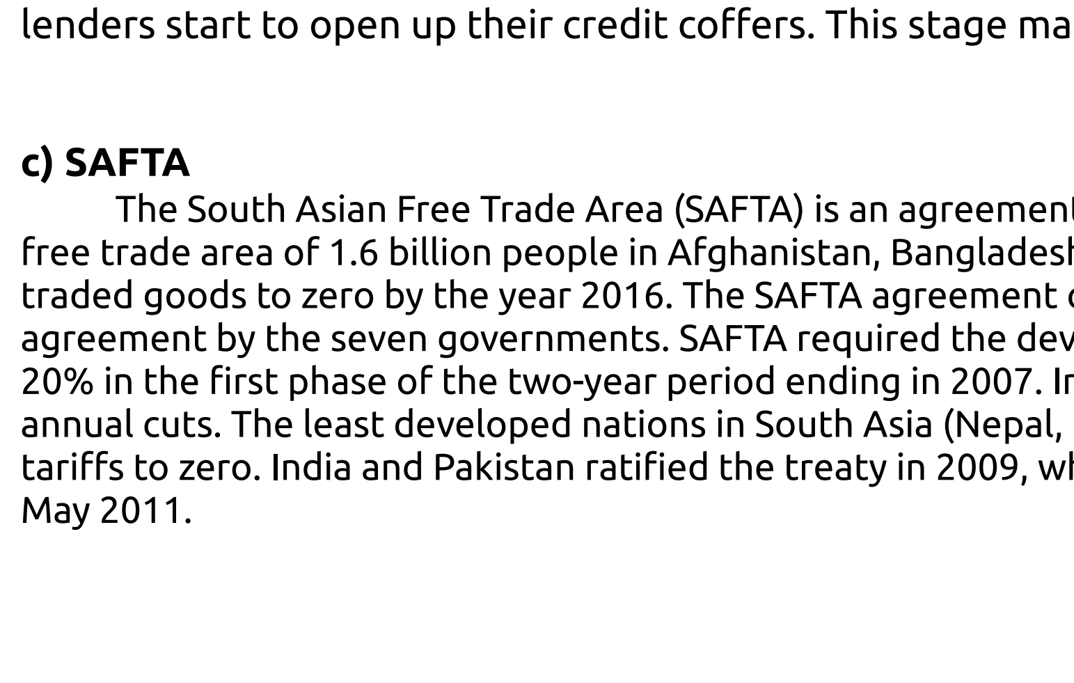
Monetary policies are implemented through different tools, including the adjustment of the interest rates, purchase or sale of government securities, and changing the amount of cash circulating in the economy. The central bank or a similar regulatory organization is responsible for formulating monetary policies.

The primary objectives of monetary policies are the management of inflation or unemployment, and maintenance of currency exchange rates.
i) Inflation
Monetary policies can target inflation levels. The low level of inflation is considered to be healthy for the economy. However, if inflation is high, the monetary policy can address this issue.

ii) Unemployment
Monetary policies can influence the level of unemployment in the economy. For example, an expansionary monetary policy generally decreases unemployment because the higher money supply stimulates business activities that lead to the expansion of the job market.

iii) Currency exchange rates
Using its fiscal authority, a central bank can regulate the exchange rates between domestic and foreign currencies. For example, the central bank may increase the money supply by issuing more currency. In such a case, the domestic currency becomes cheaper relative to its foreign counterparts.

b) Phases of Business Cycle
The Business Cycle refers to the ups and downs in the economic activities that the economy experiences over a period of time. Generally, the business cycle is the upward and downward movement in the level of GDP reflected by the fluctuations in the aggregate economic magnitudes Viz. Total production, employment, investment, wages, etc.



1. Expansion
This is the first stage. When the expansion occurs, there is an increase in employment, incomes, production, and sales. People generally pay their debts on time. The economy has a steady flow in the money supply and investment is booming.

2. Peak
The second stage is a peak when the economy hits a snag, having reached the maximum level of growth. Prices hit their highest level, and economic indicators stop growing. Many people start to restructure as the economy's growth starts to reverse.

3. Recession
These are periods of contraction. During a recession, unemployment rises, production slows down, sales start to drop because of a decline in demand, and incomes become stagnant or decline.

4. Depression
Economic growth continues to drop while unemployment rises and production plummets. Consumers and businesses find it hard to secure credit, trade is reduced, and bankruptcies start to increase. Consumer confidence and investment levels also drop.

5. Trough
This period marks the end of the depression, leading an economy into the next step: recovery.

6. Recovery
In this stage, the economy starts to turn around. Low prices spur an increase in demand, employment and production start to rise, and lenders start to open up their credit coffers. This stage marks the end of one business cycle.

c) SAFTA
The South Asian Free Trade Area (SAFTA) is an agreement reached on January 6, 2004, at the 12th SAARC summit in Islamabad, Pakistan. It created a free trade area of 1.6 billion people in Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka to reduce customs duties of all traded goods to zero by the year 2016. The SAFTA agreement came into force on January 1, 2006 and is operational following the ratification of the agreement by the seven governments. SAFTA required the developing countries in South Asia (India, Pakistan and Sri Lanka) to bring their duties down to 20% in the first phase of the two-year period ending in 2007. In the final five-year phase ending in 2012, the 20% duty was reduced to zero in a series of annual cuts. The least developed nations in South Asia (Nepal, Bhutan, Bangladesh, Afghanistan and Maldives) had an additional three years to reduce tariffs to zero. India and Pakistan ratified the treaty in 2009, whereas Afghanistan as the 8th member state of the SAARC ratified the SAFTA protocol on 4 May 2011.