ECONOMICS

Class IX

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Foreword

Human wants are unlimited while the resources of the world are limited. So the disproportion between unlimited human wants and resource available to meet those desires gives rise to the problem of choice and decision making. This leads to a need for a system of rationalizing the distribution of these finite resources against the infinite human desires. An answer to such a question can be found in the field of study called Economics. It explores the best possible means to achieve the desired economic goals to the optimal level with resources at our disposal. In a nut shell, Economics is a study about production, distribution and consumption of goods and services.

Economics education in Bhutan is intended to help our learners to keep abreast with the fast changing economic trends not only within the country but also in the rest of the world to explore the opportunities that lie ahead. It will also help them equip themselves for the world of work and make informed decisions to become responsible, accountable, and productive citizens of the nation and the world.

Economics curriculum is entrenched in Bhutan's philosophy of holistic path to development, otherwise known as Gross National Happiness, that aims to bring about a balance between spiritual and material well-being.

It is my ardent aspiration that our learners reap colossal benefits of acquiring required knowledge, skills and values out of this reformed curriculum for Economics. I am very much positive that acquisition of all those economic concepts, principles, theories, skills, and values will nurture our learners to be nationally rooted and globally competent. This will also facilitate the achievement of His Majesty's vision to nurture SMART citizens of Bhutan.

Tashi Delek!

Kinga Dakpa
Director

Table of Conents

CHAPTER 1

Introduction to Economics

Learning Objectives

- Define economics
- Discuss the nature and scope of economics
- Outline the key ideas to define economics

1.0 Introduction

Economics deals with the study of human behaviour with respect to production, consumption and distribution of goods and services to satisfy human wants. Human wants are unlimited while resources to satisfy them are limited. Therefore, the study of economics provides insight into usage of limited resources to satisfy human wants. It enables us to understand the decision-making process in allocating the resources.

This chapter discusses the key ideas that explain the major definitions, nature and scope of economics.

1.1 Understanding Economics

The term Economics was originally derived from the Greek word "Oikonomia" which means household management. With the process of civilization and change in the economic conditions, the definition of economics has evolved over time.

The key ideas of major definitions of economics are discussed below.

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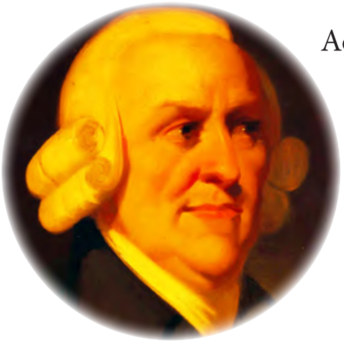
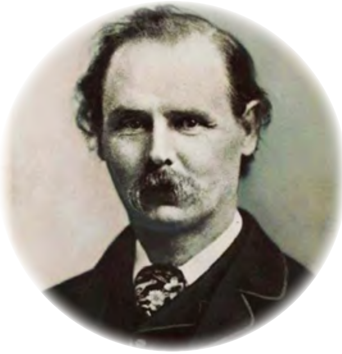
a. Wealth Oriented Definition



Adam Smith (1723-1790)

Adam Smith in his book 'An Enquiry into Nature and Causes of Wealth of Nation' regards economics as science of wealth which studies the process of production, consumption and accumulation of wealth. According to him wealth means goods and services that can be transacted with the help of money.

b. Welfare Oriented Definition



Alfred Marshall (1842-1924)

Alfred Marshall in his book "Principles of Economics" places more emphasis on human welfare than wealth. According to him, wealth is only a means to satisfy human wants and not an end in itself.

c. Scarcity Oriented Definition

Lionel Robbins (1898-1984)

Lionel Robbins defines Economics as a study of human behaviour in relation to unlimited human wants and scarce resources which have alternative uses. This ultimately leads to problem of choice.

d. Growth Oriented Definition

Professor Paul A Samuelson (1915-2009)

According to Prof. Samuelson, Economics is the study of how people and society choose to employ scarce productive resources which has alternative uses to produce various goods and services over time with or without use of money. These goods and services are distributed for consumption across the members of a society and over generations.

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Learning Activity 1.1

1. Sort the jumbled words given in Figure 1.1 under the following category. Wealth Oriented Definition, Growth Oriented Definition, Scarcity Oriented Definition, and Welfare Oriented Definition.

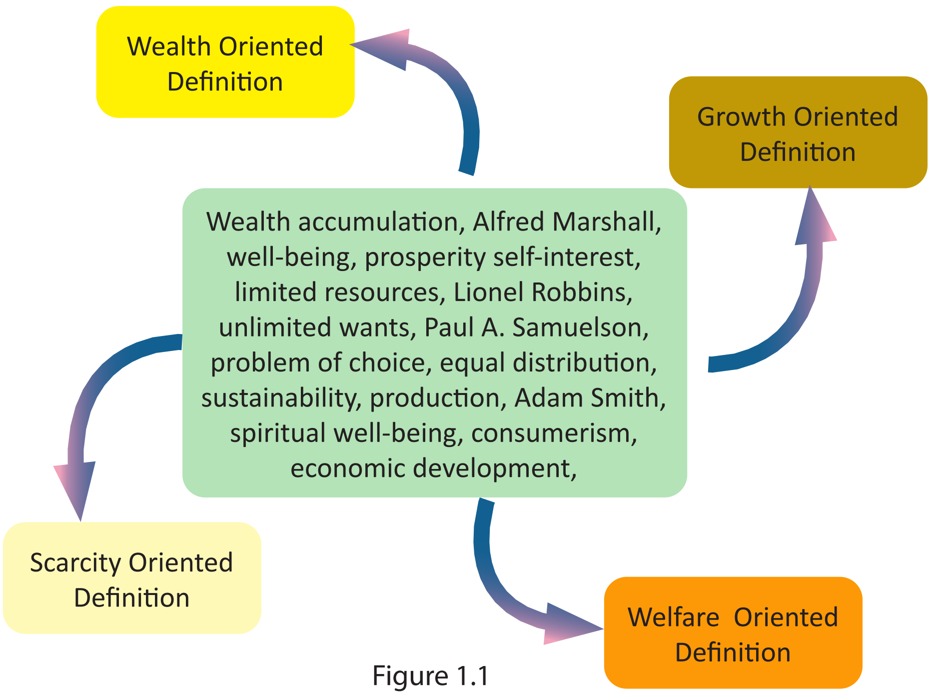

Figure 1.1

Share your work with your friends in class.

2. Explain Economics in your own words.

1.2 Nature and Scope of Economics

The continuous evolvement in the subject matter of economics has led to different views about the scope of economics. Economics is considered as a science as well as an art.

a. Economics as a Science

Economics is considered a science since the subject matter has laws and theories, which are universally accepted. Like science, the economics is a systematic study of knowledge and facts which helps in developing the correlation-ship between cause and effect. The facts are systemically collected, classified and analyzed to make future predictions. Therefore, economics is considered as a science.

b. Economics as an Art

Economics is an art because different theories and laws are explained with the help of graphs, figures, tables, and equations. It makes use of assumptions which help to define the conditions for the application of theories, laws and relationship between economic variables.

In addition, the principles of economics can be used to help in providing solutions to all economic problems. Therefore, economics is considered as an art.

Review Questions

1. Economics is considered as science as well as an art. Discuss.
2. Can we consider economics as a social science as well? Why?
3. Discuss how studying Economics would benefit:
    - i) producers.
    - ii) consumers.
    - iii) policy makers.
4. Which definition of Economics is the most suitable for Bhutan? Give reasons.

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CHAPTER 2

Scarcity and Choice

Learning Objectives

- Explain human wants and their types
- Explain the basic economic problems and their causes
- Illustrate the concept of opportunity cost using Production Possibility Curve
- Explain the process of making choice by individual and government

2.0 Introduction

Human wants are unlimited but the resources to satisfy the wants are limited. Therefore, individuals and society face economic problems. This chapter discusses the concept of human wants and the causes of economic problems. The process of making choice from various alternatives at individual and national level is also included.

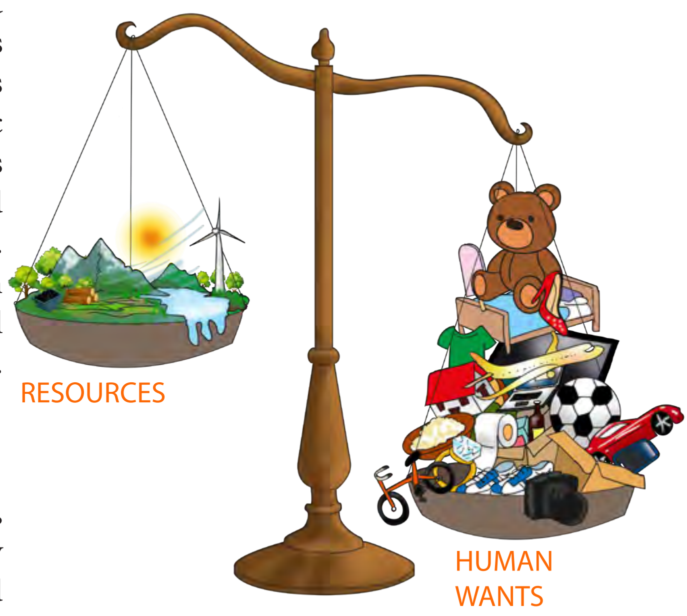

Figure 2.1 Human wants and resources

2.1 Human Wants

Human desires for better living, change, knowledge and many more. All these desires and aspirations are known as human wants in ordinary sense. In economics, human want is an effective desire for a particular thing by putting an effort to acquire it. From the day a person is born, wants arise and change over a period of time. At the same time, human wants differ from person to person and place to place.

Figure 2.2 Human wants

2.2 Types of Human Want

a. Necessities

Commodities which are essential in nature are called necessities or needs. Necessities can be for existence as well as for efficient living. Food, clothing and shelter are examples of necessities for existence. On the other hand, books for students and computers in the office are examples of necessities for efficient living.

b. Comforts

Comforts are those commodities which make life easier and comfortable. Comforts are the additional wants after necessities. For a student in a classroom, a simple chair could be a necessity, while a cushioned chair could be a comfort. Similarly, in a hot place, a fan could be a necessity in an office, while air conditioner could be a comfort..

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c. Luxuries

Those commodities which are very expensive and acquired to show wealth and position of a person in the society are known as luxuries. Some of the examples of luxuries are gold ornaments, expensive electronic gadgets, branded clothes.

Want for more luxuries and comfort commodities results in mass consumerism. There are some non-economic wants, such as love, affection and happiness, which cannot be acquired by making monetary payment. Mass consumerism can be addressed by the philosophy of Gross National Happiness (GNH) to promote healthy and harmonious society.

Learning Activity 2.1

1. Classify the following products given in Figure 2.3 into different wants for different set of people. Give justification to your answer.
   i) Teacher
   ii) Student
   iii) Patient

Figure 2.3

2.3 Economic Problems

Scarcity is the universal economic problem faced by individuals, institutions and economy as a whole. Scarcity is a situation where human wants exceed available resources. Economic problem, therefore, is the problem of scarcity and choice.

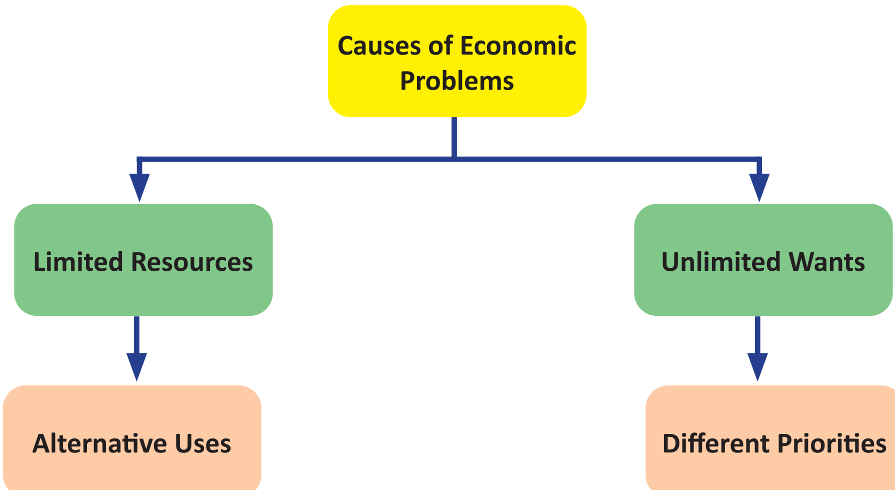

Figure 2.4 Causes of economic problems

The main causes of economic problems are explained below:

a. Unlimited wants with different priorities

Human wants differ in their urgency. Some wants are more urgent while others are less. Some people may prefer a smart phone to a laptop computer while some may want a laptop computer more than a smart phone. It becomes difficult to decide which one is to be produced or consumed.

If resources are available in abundance, economic problem would not arise. Limited resources force individuals and societies to choose from among various alternative goods and services. Hence, economic problem of scarcity and choice arises.

b. Limited Resources have Alternative Uses

Limited resources can be put to alternative uses. For example, a plot of land can be used for cultivation of crops or construction of building but not both at the same time. Similarly, one can use leisure time to either read books or play football. Therefore, one must decide which one to choose from among the available alternatives.

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2.4 Basic Economic Problems

The basic economic problem is about scarcity and choice. Any individual, organisation, society or nation has to make three fundamental choices about how to allocate the available resources.

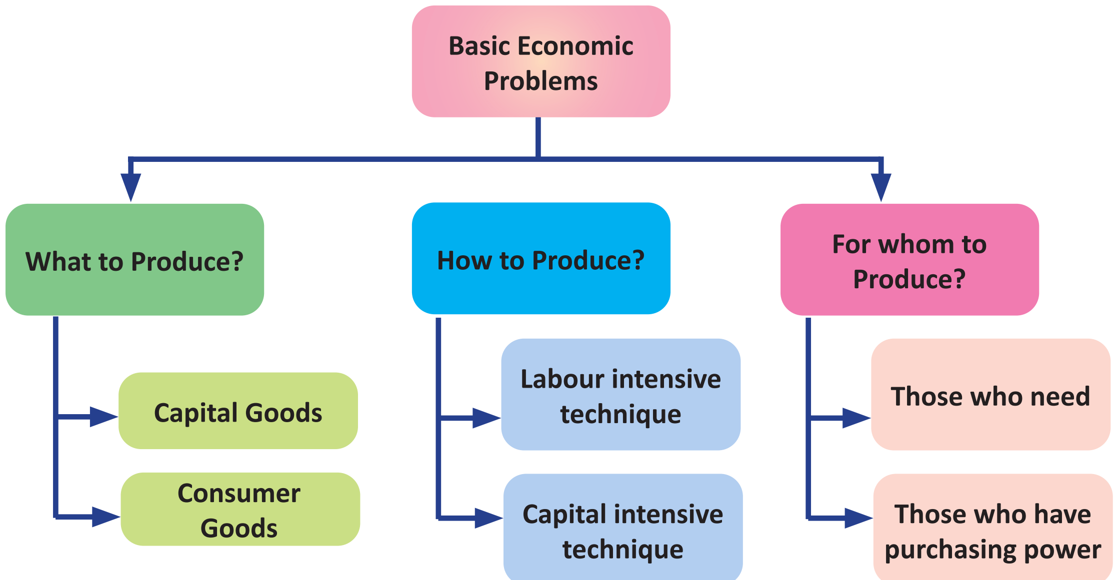

Figure 2.5 Basic economic problems

a. What to produce?

Should the economy use its resources to build more hospitals, roads, schools or luxurious hotels? Should Bhutan export more oranges than apple? Do we invest more on hydropower or tourism industry? Is tourism industry or hydro power a priority for the growth of Bhutanese economy? The economy must decide what goods and services to be produced and how much of each is to be produced.

b. How to produce?

Does Bhutan have enough human resources to enhance economic prosperity? Will the available machineries and technologies help in boosting the production level? Should countries design new methods of production? The method of production involves judicious selection of different factor combinations, techniques and other alternatives of production.

c. For whom to produce?

Who should get the maximum share of goods and services? How are income distributed? Why does inequality exist in society? Why do you think inequality exist in a society? This problem deals with the distribution of total income among different sections of society.

Due to scarcity of resources, all the wants cannot be satisfied. Hence, society faces the problem of choosing those wants which should be prioritised.

Figure 2.6 Scarcity of resources

Learning Activity 2.2

Use Figure 2.5 to answer the following questions.

1. What goods and services should Bhutan prioritize to produce?
2. What techniques of production should Bhutan use?
3. For whom should the goods and services be produced to narrow the income gap in Bhutan? Why?

2.5 Opportunity Cost

Opportunity cost arises because of scarcity of resources and the fact that resources have alternative uses. Every choice involves a trade-off, i.e. giving up one thing to get something else. Thus, opportunity cost of every choice is the cost of next best alternative that is given up in making that choice.

Tshering has an hour of leisure time. He can use this time to play either football or read a book. Tshering plays football instead of reading a book. The opportunity cost of playing football is the knowledge that a Tshering could have gained by reading a book. If a person decides to spend Nu. 2000 on buying a pair of shoes, the opportunity cost would be not being able to save that amount. An economy may decide to invest in building roads but at the cost of providing education. Bhutan may choose clean

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environment at the cost of industrialisation.

The concept of opportunity cost can be explained by using Production Possibility Curve (PPC). PPC is a curve which shows various combinations of two goods that can be produced by using the available resources.

Table 2.1 shows the possible combinations of rice and cloth that a producer can produce when all its resources are efficiently utilised. The combination A shows a point where the producer produces 10 kilograms of rice and nothing of cloth. On the contrary, the combination F shows that the producer produces 5 metres of cloth, but does not produce any rice. As the producer moves from combination A to B and B to C, the producer has to sacrifice 2 kilograms of rice to produce 1 additional metre of cloth. Thus, the opportunity cost of producing 1 extra metre of cloth is equal to 2 kilograms of rice.

Table 2.1 Production possibility

Combination	Cloth (m)	Rice (kg)	Opportunity cost of cloth in terms of rice = Change in rice/Change in cloth
A	0	10	-
B	1	8	2
C	2	6	2
D	3	4	2
E	4	2	2
F	5	0	2

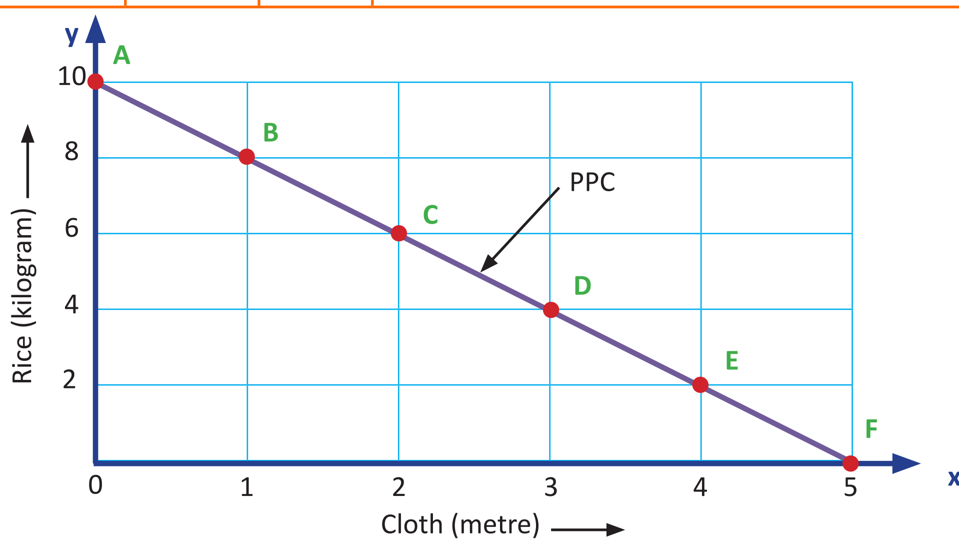

Figure 2.7 Production Possibility Curve

Table 2.1 can be represented in the form of a graph as shown in Figure 2.7. The X axis represents cloth and the Y axis represents rice. Points A, B, C, D, E and F shows various combinations of two commodities that can be produced by efficient use of resources. The movement along the curve shows opportunity cost of cloth in terms of rice.

Learning Activity 2.3

1. Suppose you have Nu. 5000. Show how you would spend your money.

Table 2.2

Income	Areas of Expenditure	Total Expenditure in Nu.
Nu. 5000	Food	
	Stationeries	
	Entertainment	
	Saving	

2. How would you divide 24 hours among different activities? Illustrate with the help of a graph.

Review Questions

1. Why does human want change over a period of time?
2. How do you think non-economic wants help in promoting social welfare?
3. What are the causes of economic problem?
4. Explain the concept of opportunity cost with an appropriate example.
5. How does the concept of opportunity cost help consumers to make informed decision?

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CHAPTER 3

Economic Resources and Production

Learning Objectives

- Describe resources
- Explain the factors of production
- Explain the characteristics of an entrepreneur as a factor of production
- Explain the concept of production and consumption
- Explain the concept of utility and forms of utility

3.0 Introduction

Nature has bestowed us with many gifts which are commonly known as natural resources. These resources are not enough to satisfy all human wants. Hence, the limited resources have to be used efficiently. This chapter discusses different types of resources and factors of production.

3.1 Resources

Resources are anything which can be used for production of goods and services to satisfy human wants. They are broadly categorised into natural and human-made resources.

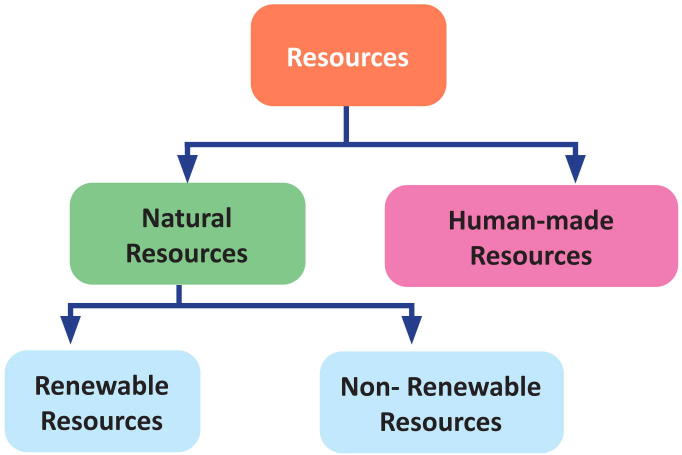

Figure 3.1 Category of Resources

a. Natural Resources

Natural resources are free gifts provided by nature that can be used for production of goods and services. They can be classified into renewable and non-renewable natural resources.

Figure 3.2 Natural resources

A renewable natural resources are those which can refill to replace the depleted portions through natural reproduction or other recurring processes. Some of the examples are sunlight, water and forest. While non-renewable natural resources are those that cannot be replaced such as coal, petroleum and natural gas.

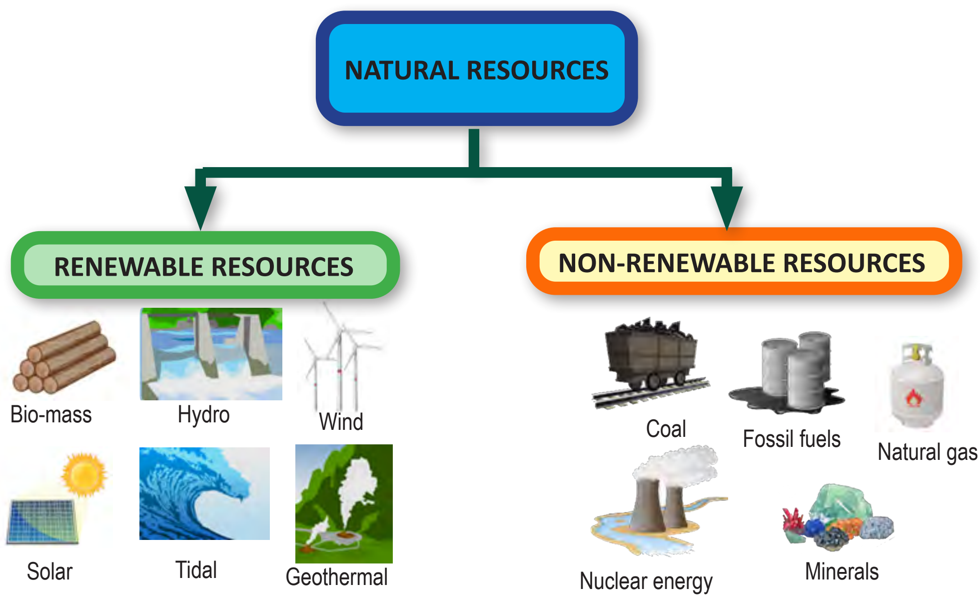

Figure 3.3 Renewable and non-renewable resources

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b. Human-made Resources

Resources that are created by humans are called human-made resources. Machine, tools and chemical fertilisers are some examples of human-made resources. They can be improved through research and development.

3.2 Human Resources

Human resources are people who make up the workforce, be it skilled or unskilled. The qualities of human resources include skill, knowledge, energy and talents. Some examples of human resources are farmer, teacher, engineer, carpenter, welder, mason and plumber.

3.3 Factors of production

Resources are called the factors of production as they are used to produce goods and services. There are four categories of factors of production.

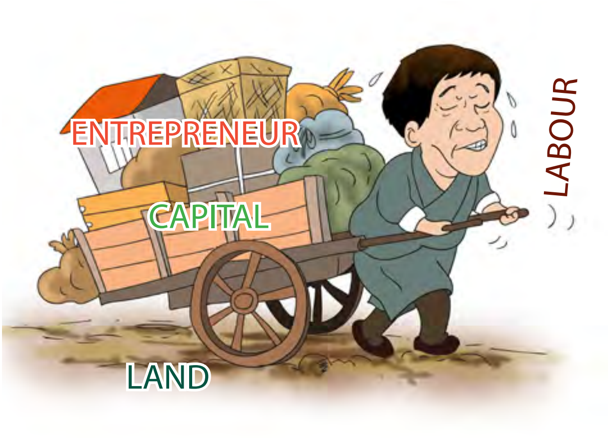

Figure 3.4 Factors of production

a. Land

Land includes all the free gift of nature, such as land, forest, minerals and wildlife.

b. Labour

Labour consists of physical and mental human efforts that are used in the production of goods and services.

c. Capital

Capital refers to those human-made goods used for further production.

d. Entrepreneur

A person who organises the production of goods and services by combining several factors of production is called an entrepreneur.

Learning Activity 3.1

1. Classify the following items into natural and human-made resources.


Wood


Cotton


Concrete block


Glass


Plastic


Stone


Gold


Leather

i) Give few examples of resources that are at the risk of depletion.

ii) As a responsible citizen, what would you do to preserve these resources?

3.4 Entrepreneur

The word entrepreneur is derived from the French word 'entreprendre', which means 'to undertake'. The word was originally used to describe people who 'take on the risk' in business or who 'undertake' a task such as starting a new venture.

Entrepreneurs are those who organise and combine all the factors of production to produce goods and services in an economy. They take important decisions regarding production and bear the risks involved in production. Successful entrepreneurs are rewarded with profit.

Entrepreneurs have certain common characteristics such as passion, self-confidence, creativity and the ability to confront challenges. They are ready to take risks and are willing to learn new things. Entrepreneurs are also self-reliant as they are self-supportive and independent. They are self-starters who do not wait for others to tell them what to do. While they may actively compete with others, they also constantly try to improve their own performance and competence.

In addition, the success of an entrepreneur is supplemented by skills such as planning, communication, marketing, interpersonal, basic management, leadership, team building and ICT skills.

Learning Activity 3.2

1. Plan and prepare a field study in your respective teams to carry out an interview with an entrepreneur in your locality.

   Use the questionnaire provided below to interview an entrepreneur.

   Entrepreneur's profile and questions

   Name of the entrepreneur: ....

   Nature of the venture: ....

   Location: ....

   Year of establishment: ....

   a. What made you start this venture?
   b. What were some of the challenges you faced when starting your venture?
   c. How did you overcome those challenges?
   d. What are some of the current challenges and how do you overcome them?
   e. What are your strengths or weaknesses as an entrepreneur?
   f. Do you have any plans to expand your business?
   g. What advice would you give to youths who want to become entrepreneurs?

2. Based on the information obtained from the interview, mention some of the characteristics that enables the person to be a successful entrepreneur.

3. If you aspire to be a successful entrepreneur, what are the traits you need to possess and which are the ones that you need to acquire?

4. Discuss the role of an entrepreneur in the economic development of a country like Bhutan.

5. Do you believe that entrepreneurs are 'born' and not 'made'? Justify your answer.

3.5 Production

Most of the things that people do every day are economic activities. Any activity which leads to creation of goods and services to satisfy human wants is termed as production. Inputs are converted into outputs through the production process which adds utility to the commodity.

Figure 3.5 Production processes

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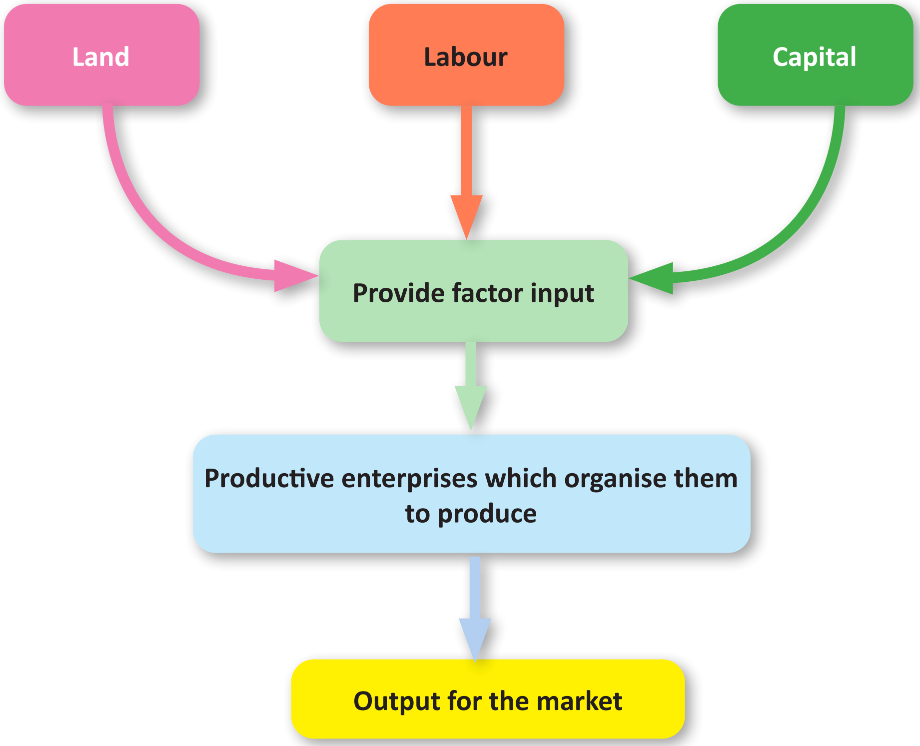

Figure 3.6 Organisation of production

Learning Activity 3.3

1. Use Figure 3.7 and answer the questions that follow.

(a)

(b)

(c)

Figure 3.7

i) Prepare a list of inputs required to produce each of the commodities in Figure 3.7.

ii) Classify the inputs required to produce the commodities in Figure 3.7 into natural and human-made resources.

3.6 Consumption

In an economy, the production and consumption are interlinked. High consumption will lead to more production and vice versa. Goods and services are consumed because they possess utility or power to satisfy human wants.

Learning Activity 3.4

'Sustainable development goal 12 is to ensure sustainable consumption and production patterns. The transition to sustainable consumption and production of goods and services is necessary to reduce the negative impact on the climate and the environment, and on people's health.'

(Illustration UN- 29/10/2015)

1. With reference to the above statement, how would sustainable consumption and production impact the society?
2. As a consumer of goods and services, how would you contribute to sustainable consumption?

Explore yourself

1. Are you aware of the Consumer Rights? Mention some of them.
2. Do you know that there is a consumer protection laws? Mention three provisions of the law.

Figure 3.8 Consumer protection

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3.7 Utility

Utility is the power of a commodity to satisfy human wants. In other words, it means a perceived value or satisfaction that an individual gets from consuming goods and services.

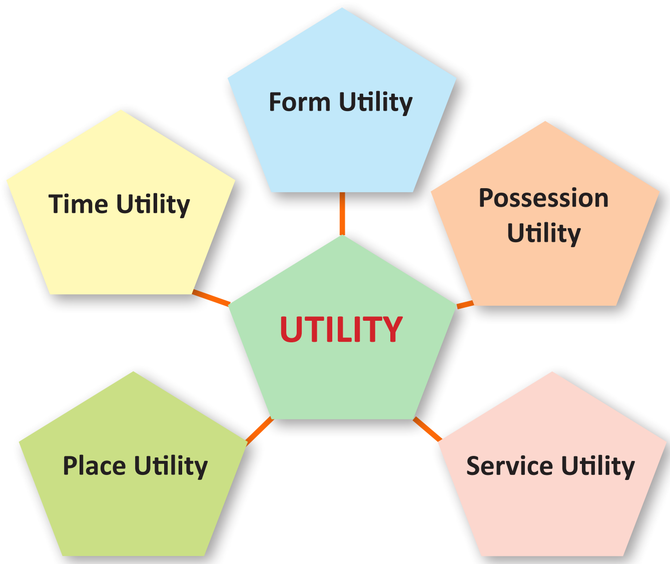

Figure 3.9 Types of utility

Learning Activity 3.5

1. Match the types of utility in column A with their definitions in column B.

Types of utility (A)	Meaning (B)
Form Utility	Certain goods lose utility at one time and regain it at other point of time.
Possession Utility	When services are rendered, utility is added to a commodity.
Service Utility	When ownership of a commodity is changed or created.
Time Utility	We can add utility to a good by transferring it from one place to another.
Place Utility	When we alter or change the form or shape of a commodity and add utility to it.

2. Provide examples for each type of the utilities mentioned above.
3. Think of a firm in your locality and discuss the advantages of having it there.
4. What are some of the challenges faced by producers in Bhutan?

Review Questions

1. Answer the following questions.

   i) Define consumption in your own words.

   ii) Differentiate between renewable and non-renewable resources. Give an example each.

   iii) How is skilled labour different from unskilled labour?

2. Fill in the blanks with the appropriate words given below.

   Consumer sovereignty, Commodity, Consumer, Optimum, Allocative efficiency, Consumer goods and services, Rationality, Consumption, Cost, Labour force, Optimum

   i) The production of the 'best' or 'optimal' combination of outputs by means of the most efficient combination of inputs is known as ____________________.

   ii) ____________________ is any object which is produced for consumption or for exchange in markets.

   iii) ____________________ is any economic agent responsible for the act of consuming final goods and services.

   iv) Tangible and intangible commodities which are consumed for their own sake to satisfy current wants are called ____________________________.

   v) The idea that the consumer is the best judge of his or her own welfare is known as ____________________________.

   vi) The act of using goods and services to satisfy current wants is _________________.

   vii) _________________ is in general, a measure of what must be given up in order to obtain something whether by way of purchase, exchange or production.

   viii) The _____________________ consists of persons who are either working or looking for work: it comprises the employed plus the unemployed.

   ix) _______________ is the 'best' situation or the state of affairs.

   x) ___________________ is the behaviour by an economic agent (consumer, producer, government, etc.) which is consistent with a set of rules governing preferences.

CHAPTER 4

Economic and Non-economic Activities

Learning Objectives

- Differentiate between economic and non-economic activities with examples
- Explain the factors affecting economic activities
- Discuss different sectors of an economy with examples
- Explain the role of primary, secondary and tertiary sectors in the economy

4.0 Introduction

All individuals engage in some forms of activities with different motivations. Some individuals work with expectations of earning something in return, while others devote themselves to derive intangible satisfaction such as happiness. The types of activities people perform vary from person to person. The efficiency of the work depends on factors such as knowledge, skill, natural resources and technology. The economy of a nation can be broadly divided into three sectors on the basis of the nature of the economic activities.

4.1 Economic and Non-Economic Activities

Every human being keeps themselves occupied in one or the other activity to satisfy their wants. These activities can be economic and non-economic activities.

a. Economic Activities

All those activities which are legally undertaken with a motive to earn money are called as economic activities. These activities are economically productive and interlinked to one another. Every activity assumes equal importance despite differences in their nature and return. Therefore, one should be sincere, mindful, astute, resilient and timeless (SMART) in carrying out one's duties and responsibilities in fulfilling the aspirations of His Majesty The king.

b. Non-Economic Activities

Non-economic activities are those that are performed to provide services without monetary gain. The activities such as household chores, voluntary social works, praying, helping in times of natural disasters are some examples of non-economic activities. While these activities do not directly lead to productivity and efficiency, planned non-economic activity such as recreation and vacation which help mental growth can lead to increased productivity and growth.

Non-economic activities do not contribute directly to national income, but they generate a great amount of satisfaction and promote wellbeing among the people. Therefore, all the developmental activities in Bhutan are guided by the philosophy of Gross National Happiness (GNH). GNH seeks to bring about a judicious balance between the spiritual and the material advancement of people and the country respectively.

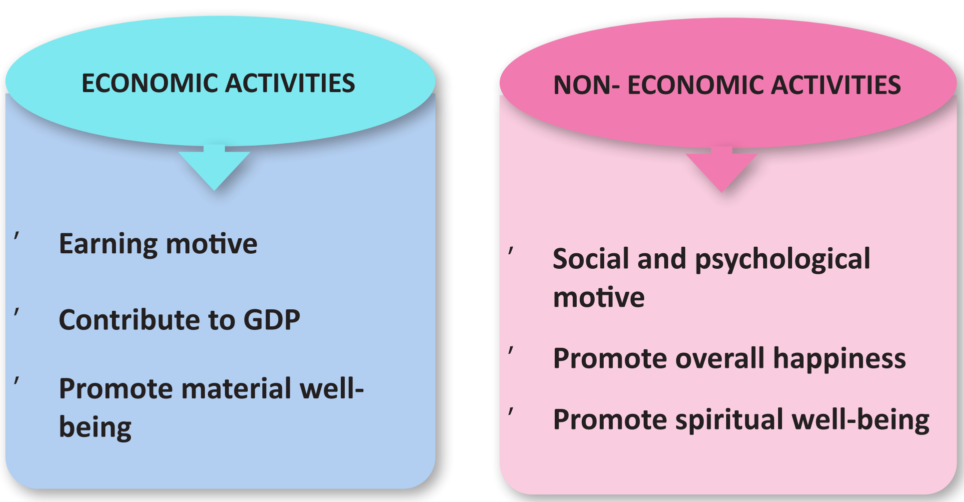

Figure 4.1 Differences between Economic and Non-economic activities

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Learning Activity 4.1

1. List down the activities that the members of your family carry out and put them into two categories as follows:

Family Members	Economic Activities	Time spent per day	Non-Economic Activities	Time spent per day

   i) For each family member, calculate the total number of hours for both economic and non-economic activities.

   ii) In which activity do your family members spend more time? What would be the benefit of spending more time on that particular activity?

2. The activities that are considered economic activities for some people are non-economic activities for others. Explain.

3. One should consider ethical and moral values while carrying out economic activities. Discuss.

4.3 Factors Affecting Economic Activities

The types of economic activities in any region or locality depend on a combination of a variety of factors. Some of these factors are discussed below.

a. Availability of raw materials

Raw materials are the primary need for any kind of economic activities. The kind of economic activities carried out in an area depend on the types of raw materials available in that area. For instance, a place is likely to have cement factory if there are gypsum and limestone available nearby.

b. Infrastructural facilities

Infrastructural facilities, such as electricity, communication, transportation networks, water supply and banking facilities are important for promoting different economic activities. For example, farm roads and electrification widen the base of economic activities in rural areas.

c. Skilled labour and entrepreneurship

Availability of skilled labour force and entrepreneurs have a significant influence on the growth of economic activities. A person with entrepreneurial skills creates new activities and expands the scale of the existing activities. Urban centres usually experience diverse growth of economic activities because of the availability of skilled labour and entrepreneurs.

d. Access to technology

Technology is another influential factor to determine the growth of economic activities. The use of technology increases productivity. Technological advancement results in inventions and innovations which in turn help in the establishment of different types of economic activities. For example, the growth of hydroelectricity in Bhutan is a result of technological advancement. The access to information and communication technology through widespread use of mobile phones and other mobile-enabled services are starting to change farming practices in Bhutan.

e. Government policy

Government plays a regulatory as well as a supportive role in economic development. The establishment of any business venture, its scale and location are determined by government policies. The government uses different ways to promote or restrict any

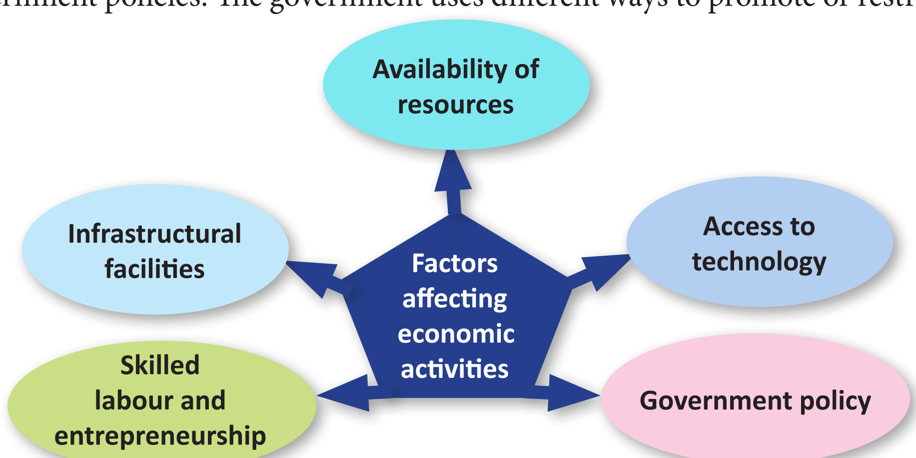

Figure 4.2 Factors affecting economic activities

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activity through licensing policy, subsidisation and taxation. For example, to promote the expansion of modern economic activities in rural areas, the government provides tax holidays, subsidies and access to cheaper financing.

Learning Activity 4.2

1. What additional factors, other than the ones given in the figure 4.2, determine economic activities?
2. Can you think of any new economic activity that has been established in your locality because of the innovation? How has it affected your locality?
3. Discuss the prospects of starting any economic activity in your locality and prepare a short report describing the possible gains, and challenges you may face.

4.4 Sectors of the Economy

The economic activities of a country can be broadly classified into three sectors:

a. Primary Sector

This sector includes those economic activities that involve extraction of raw materials. It consists of activities such as agriculture, mining, forestry, fishing, and other related activities that depend on nature.

b. Secondary Sector

This sector includes economic activities related to manufacturing of goods such as construction, power generation, gas production and water supply.

c. Tertiary Sector

This sector includes economic activities which provide services. These services include transport and communication, banking and insurance, trade and commerce, and professional and administrative services.

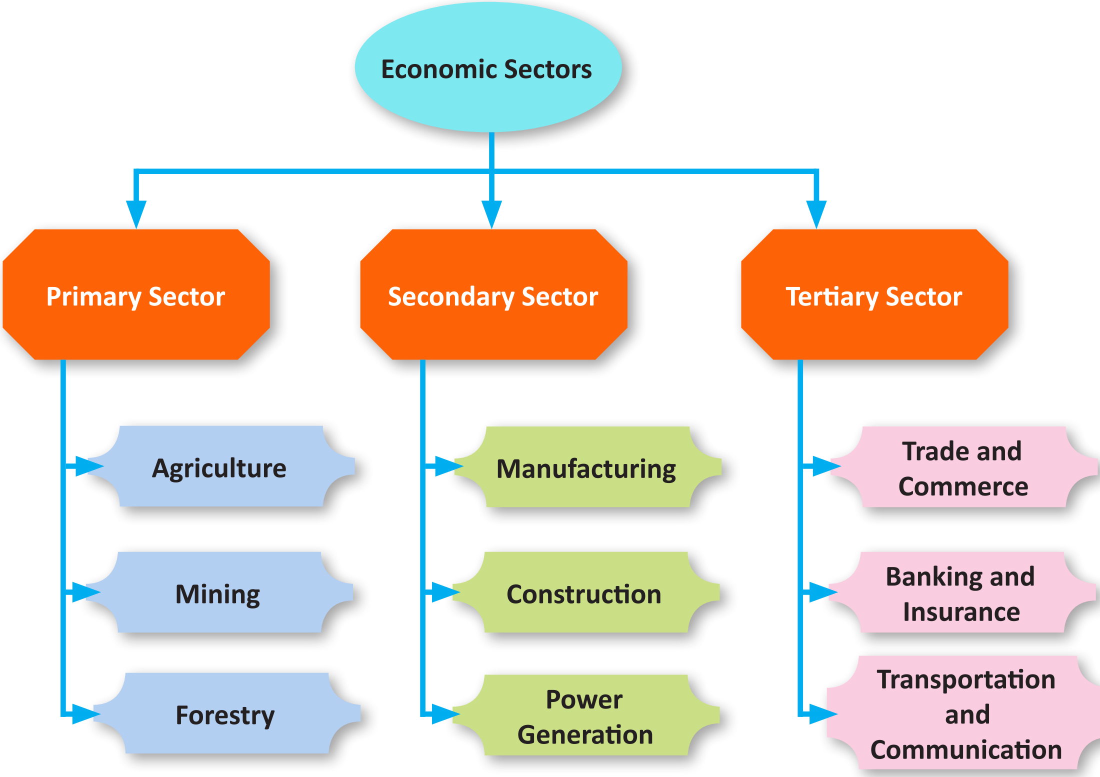

Figure 4.3 Type of Economic sectors

4.5 Role of Economic Sectors

The importance of each economic sector of an economy is measured by its relative contribution to Gross Domestic Product (GDP). All economic sectors contribute to employment and revenue generation promoting trade and economic growth. The activities in each of these three sectors are interdependent.

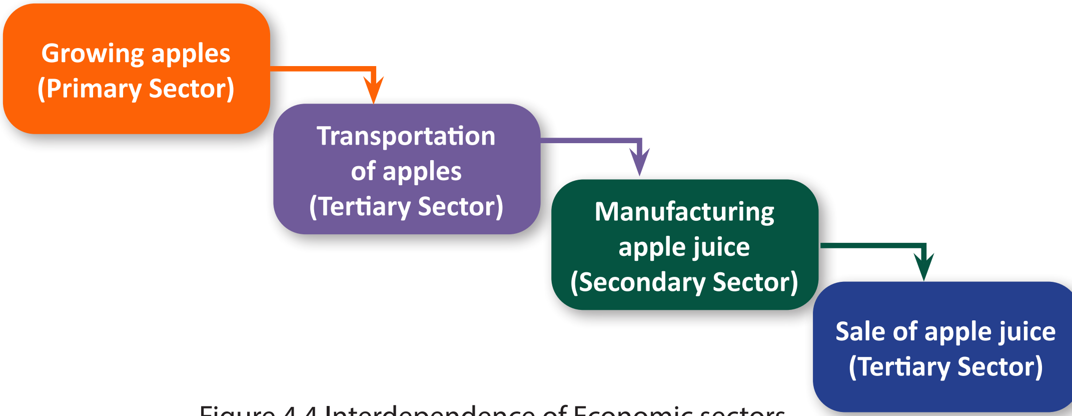

Figure 4.4 Interdependence of Economic sectors

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a. Role of Primary Sector

The primary sector plays an important role in the economy as it is the base of all activities for other sectors.

i. Source of raw materials

The primary sector is the source of raw materials to the manufacturing sector. Raw materials like minerals and agricultural products are essential for the development of the industrial sector.

ii. Provision of food grains

The primary sector, especially agricultural products, is the source of food grains in the economy. It promotes self-sufficiency and a healthy living.

Primary Sector (Agriculture, Livestock and Forestry)

In 2017, primary sector growth further declined to 3.39 percent, down by 0.52 percentage points from 3.91 percent in 2016. The sector contributed 0.41 percentage points to the GDP growth in 2017. The lower rate of growth was due to poor performance in the Forestry sector for past two consecutive years. Agriculture (Crops) sector continued to be the main driver of the primary sector's growth in 2017. The sector recorded growth of 6.33 percent and contributed 3.24 percentage points to the sector's growth. In nominal terms, the Gross Value Added (GVA) was recorded at Nu. 28,591.14 million in 2017, as against Nu. 24,825.54 million in 2016 and its share of the economy was 17.37 percent.

(Source: National Accounts Statistics, 2018)

b. Role of Secondary Sector

The secondary sector plays an important role in using the outputs of the primary sector. It adds value to the output of the primary sector.

i. Supply of goods

The secondary sector processes the raw materials into finished goods. Thus, the secondary sector supplies a wide range of capital and consumer goods in an economy.

ii. Provision of infrastructure

The secondary sector supplies infrastructures such as transport, power and capital goods to foster the growth of other sectors. Availability of infrastructural facilities enhances productivity and efficiency.

iii. Industrialization

The secondary sector brings about industrialisation in the economy and increases the nation's production capacity. The growth of industries leads to large scale production of goods which are available to the consumers at cheaper rates.

Secondary Sector

The industry sector's growth decelerated to 2.41 percent in 2017, down by 4.53 percentage points from 6.94 percent in 2016. The sector's contribution to GDP growth was 1.05 percentage points. Within the sector, the construction sector was the main driver of growth although the sector grew by only 6.34 percent as compared to 13.64 percent in 2016. National Accounts Statistics, 2018 . The total Gross Value Added was estimated at Nu. 66,786.08 million in 2017, the share of the secondary sector was 40.57 percent in 2017, down by 0.82% points from 41.39% in 2017.

(Source: National Accounts Statistics, 2018)

c. Role of Tertiary Sector

The tertiary sector plays a significant role in the economic development of the nation. The activities within the tertiary sector and its relative share in GDP grow faster than the primary and secondary sectors when the level of economic development increases.

i. Improve living standard

The tertiary sector provides services such as health, education, transport, communication and trade which help in improving the living standard of the people.

ii. Promote economic interaction

The tertiary sector facilitates interactions between people rather than the production of goods. It connects the different sectors of the economy and facilitates the flow of information and goods among the units of an economy.

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iii. Develop human resources

The tertiary sector enhances the capacity of human resources through the provision of better health facilities, education and training services. It is further supplemented by other facilities including good network of transport and communication system.

iv. Promote international trade

A well-developed tertiary sector helps to expand trade with other countries. For example, one of the reasons for the development of tourism industry in Bhutan is due to the development of services such as hotel services, infrastructure and banking facilities.

Contribution of Tertiary Sector to Bhutanese Economy

The Service Sector with a share of 42.06 percent to GDP recorded GVA of Nu. 69,250.71 million, in 2017. The share of the sector increased by 0.10 percentage points from 41.97 percent in 2016. The growth of the sector was 7.15 percent in 2017 as compared to 10.32 percent in the previous year, drop by 3.17 percentage points. The sector contributed 3.17 percentage points to the GDP growth. Transport and Finance sectors were the main contributors to the sector's growth.

(Source: National Accounts Statistics, 2018)

Review Questions

According to the National Account Statistics 2018, tertiary sector has the highest share in GDP with 42.06% in 2017 followed by secondary sector with 40.57% and primary sector at 17.37%. While the tertiary and primary sectors had a marginal increase in their shares, the secondary sector recorded a decline in its share in 2017.

Table 4.1 Percentage share of economic sector to GDP

Year	2013	2014	2015	2016	2017
Primary	16.10	16.69	16.71	16.64	17.37
Secondary	42.35	40.85	41.33	41.39	40.57
Tertiary	41.55	42.46	41.96	41.97	42.06
GDP	100	100	100	100	100

(Source: National Accounts Statistics, 2018)

1. In Table 4.1, it is evident that the percentage share of secondary and tertiary sectors is more than the primary sector. Why do you think so?

2. Use the information given in Table 4.1 and draw a bar graph to represent percentage of contribution to GDP of each sector.

3. Identify some of the challenges faced by each of the economic sectors in the Bhutanese economy and suggest remedial measures for each.

4. What are some of the adverse impacts of economic activities on the environment? Suggest three measures to address those issues.

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CHAPTER 5

Demand and Law of Demand

Learning Objectives

- Discuss the meaning of price
- Discuss factors affecting price
- Define demand and state the law of demand
- Explain factors affecting demand for goods and services
- Construct demand curve based on schedule
- Differentiate between individual and market demand
- Explain the movement along the demand curve
- Explain the shift of demand curve
- Explain price elasticity of demand

5.0 Introduction

The terms desire, wants, and demand are generally confused with one another, but in economics, all these have different meanings. Demand is a fundamental factor that drives economic activities and it is one of the most important concepts in the study of economics.

5.1 Price

Price in general is the amount of money that the consumers pay for purchasing goods and services. It is expressed in terms of units of exchange. Prices are either determined by the market forces or regulated by the government.

5.2 Demand

In economics, demand is a desire backed by the willingness and the ability to pay for a particular commodity. Desire means a wish to have something or to enjoy services, without actually acquiring it. Demand for a commodity is the quantity of a commodity that a consumer is willing and able to purchase at a particular price in a given period of time.

a. Factors Affecting Demand

i. Price of goods and services

There is an inverse relationship between the price of the commodity and the quantity demanded. With decrease in price, demand for goods and services will rise and if the price increases, demand will fall.

ii. Consumers' tastes and preferences

Consumers' tastes and preferences for goods and services often change resulting in change in demand. If consumers' tastes and preferences are in favour of a commodity, demand for that commodity will increase and vice versa.

iii. Income of the consumers

Generally, there is a positive relationship between income and demand for a commodity. As the income of the consumers increases, the demand increases. A decrease in consumer's income leads to decrease in demand. This situation applies only to normal goods.

In case of inferior goods, there is an inverse relationship between income and demand for a commodity. As the income of the consumer increases, the demand for inferior goods decreases and vice versa.

iv. Changes in price of related goods

Price of related goods influences demand in two ways depending on the nature of the commodity. When the price of a particular good decreases, the demand for its substitute goods falls. Conversely, when the price of particular good increases, the demand for its substitute goods rises.

In case of complementary goods, when the price of a particular good decreases, the demand for its compliment goods rises. Conversely, when the price of a particular good increases, the demand for its compliment goods falls.

v. Future price expectation

If consumers expect the price of a particular commodity to increase in the future, demand for that commodity would rise. On the contrary, if consumers expect the price of the commodity to decrease in the future, demand for that commodity would fall.

Learning Activity 5.1

Nu.40 for strawberryice cream

I eat 10 strawberry ice cream in a month.

Figure 5.1 (a)

Figure 5.1 (b)

Nu. 60 for anstrawberry ice cream!

I think I should opt for chocolate icecream!

1. Study pictures in Figure 5.1 (a) and (b) and answer the questions:
   i) Explain the relationship between price and quantity demanded.
   ii) How are strawberry ice cream and chocolate ice-cream related to each other?
2. Many people consume bread and jam together. As the price of bread rises, what would happen to the demand for jam? Why?
3. Explore examples of normal and inferior goods for each of the goods mentioned below.
   i) Pen
   ii) Gho
   iii) Car
   iv) Mobile phone
   v) Shoes
   vi) Laptops

b. Law of Demand

Law of demand explains the relationship between price of the commodity and the quantity demanded for the same commodity. The law states that other things remaining same, demand for a particular commodity increases with the decrease in price and vice versa. There is an inverse relationship between the price and quantity demanded. The law can be illustrated with the help of demand schedule and curve.

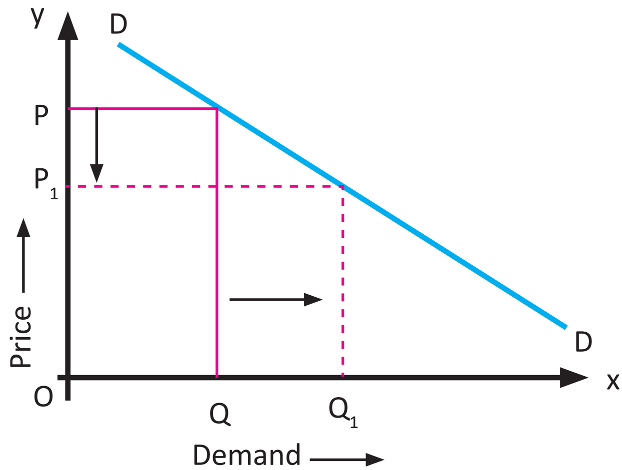

Figure 5.2 Law of demand

c. Demand Schedule

The tabular representation of the relationship between price and quantity demanded is called demand schedule.

Table 5.1 Individual Demand Schedule

Price per kg (Nu.)	Quantity Demanded (kg per week)
50	20
100	18
150	16

Table 5.2 Market Demand Schedule

Price per kg (Nu)	Quantity demanded by Consumer A (kg per week)	Quantity demanded by consumer B (kg per week)	Total market Demand (A+B) (kg per week)
50	20	16	36
100	18	12	30
150	16	8	24

Learning Activity 5.2

'Individual demand is the quantity of a commodity that a consumer or a household is willing and able to purchase at a given price during a given period of time. Whereas market demand is the quantity of a commodity that all the consumers are willing and able to purchase at a given price during a given period of time.'

With the help of above statement and Table 5.1 and 5.2, construct the meaning of individual and market demand schedule.

d. Demand Curve

Demand curve is a graphical representation of the relationship between price of the commodity and the quantity demanded. A demand curve is derived from a demand schedule by plotting different points on a graph corresponding to the quantity demanded and the price on X and Y axis respectively.

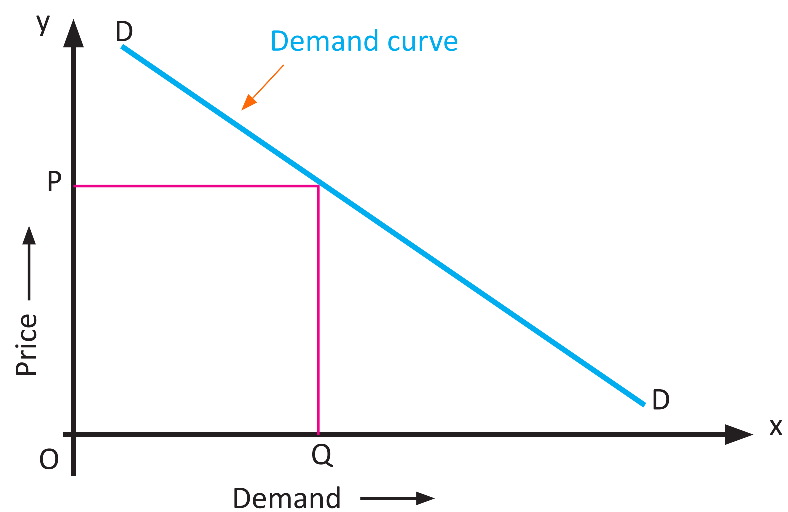

Figure 5.3 Demand curve

Learning Activity 5.3

1. Use Table 5.1 and 5.2 to derive the individual demand curve and the market demand curve respectively.
2. Study the graph and state the properties of demand curve

e. Movement along the Demand Curve

Movement along the demand curve is caused by change in price, other factors remaining constant. In figure 5.4, X-axis represents quantity demanded and Y-axis represents price of a commodity.

Initially, when the price is OP, the quantity demanded is OQ. When the price falls from OP to OP_2, the quantity demanded increases from OQ to OQ_2. This is called extension of demand.

On the other hand, when the price increases from OP to OP_1, the quantity demanded decreases from OQ to OQ_1. This is called contraction of demand.

The movements from point 'B' to 'A' and 'B' to 'C' represent the movement along the demand curve.

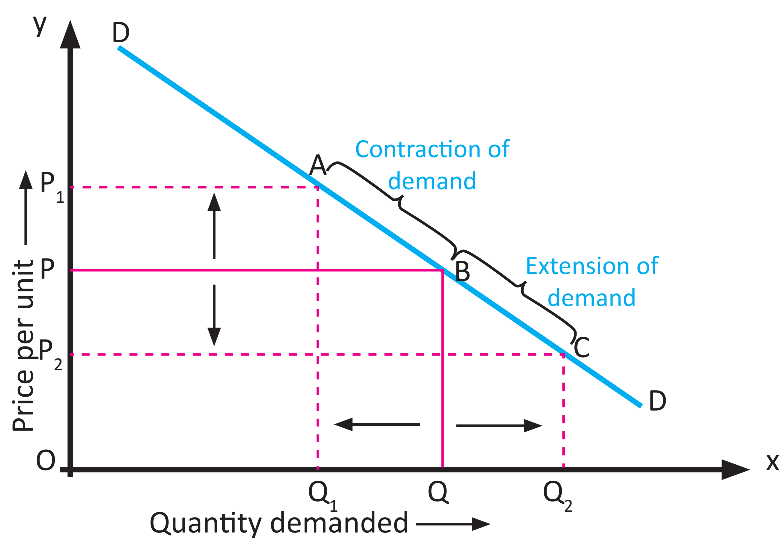

Figure 5.4 Movements along the demand curve

f. Shift in Demand Curve

When demand changes due to change in factors other than price, it is called shift in demand curve. Rightward shift of demand curve indicates increase in demand and leftward shift of demand curve indicates decrease in demand.

Shift in demand curve is caused by changes in other factors, such as income of the consumer, change in population, tastes and preferences of consumers.

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Initially, when the price is OP the quantity demanded is OQ. Price remaining the same at OP, the quantity demanded increases from OQ to OQ_2. This is called increase in demand. Similarly, at the same price OP, the quantity demanded decreases from OQ to OQ_1. This is called decrease in demand.

Rightward shift in demand curve from DD to D_2D_2 is called increase in demand and leftward shift in demand curve from DD to D_1D_1 is called decrease in demand.

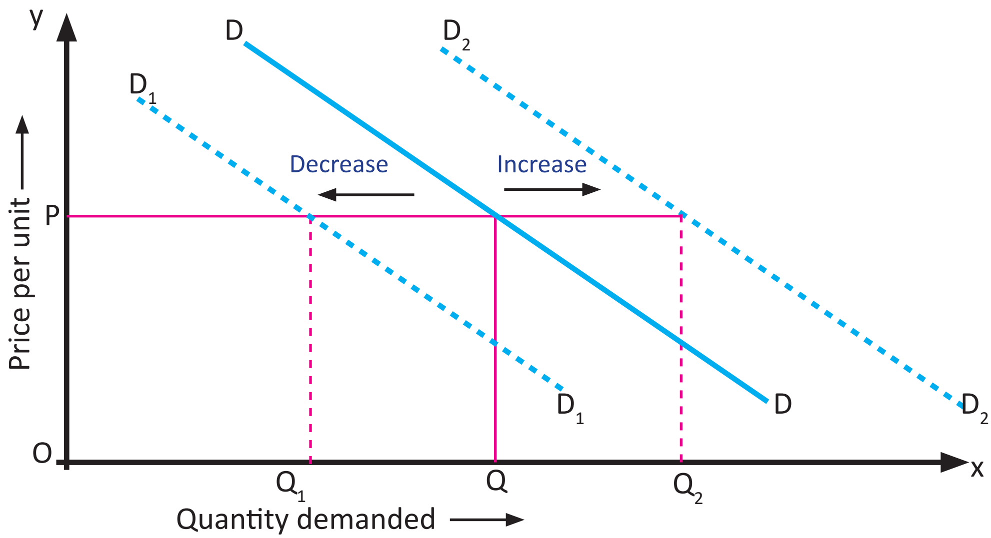

Figure 5.5 Shift in demand curve

5.3 Elasticity of Demand

Elasticity of demand shows how quantity demanded changes as a result of change in its price.

a. Price elasticity of demand

Price elasticity of demand is the degree of responsiveness of quantity demanded of a commodity to a change in its price.

$$\text{Price Elasticity of Demand}(ep) = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in its price}}$$

b. Types of Price Elasticity of Demand

i. Elastic Demand

Demand is said to be price elastic when percentage change in quantity demanded is greater than percentage change in its price.

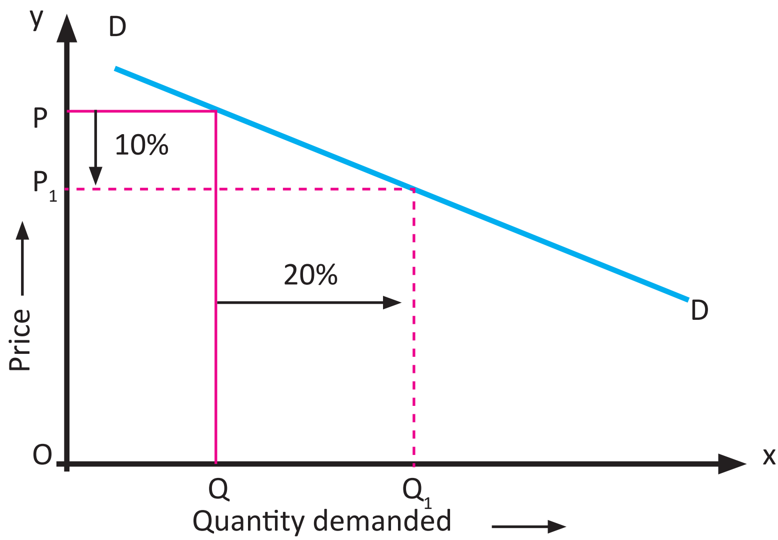

Figure 5.6 Elastic demand

ii. Inelastic Demand

Demand is said to be price inelastic when percentage change in quantity demanded is less than percentage change in its price.

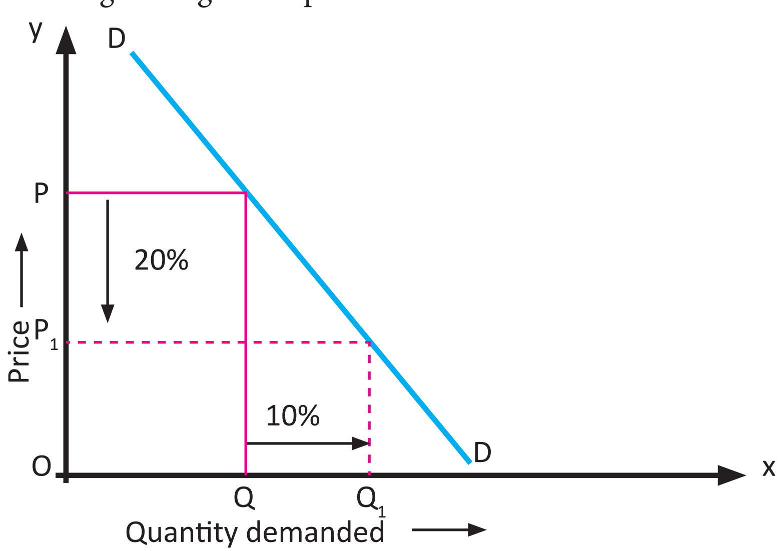

Figure 5.7 Inelastic demand

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iii. Unitary Elastic Demand

Demand is said to be unitary elastic when the percentage change in quantity demanded is equal to the percentage change in price.

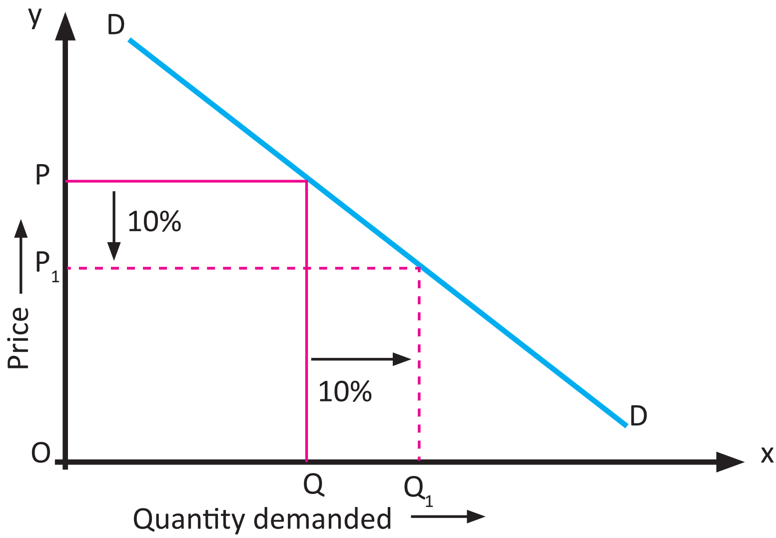


Figure 5.8 Unitary elastic demand

iv. Perfectly Elastic Demand

Demand is said to be perfectly elastic when small or no change in price leads to infinite change in quantity demanded.

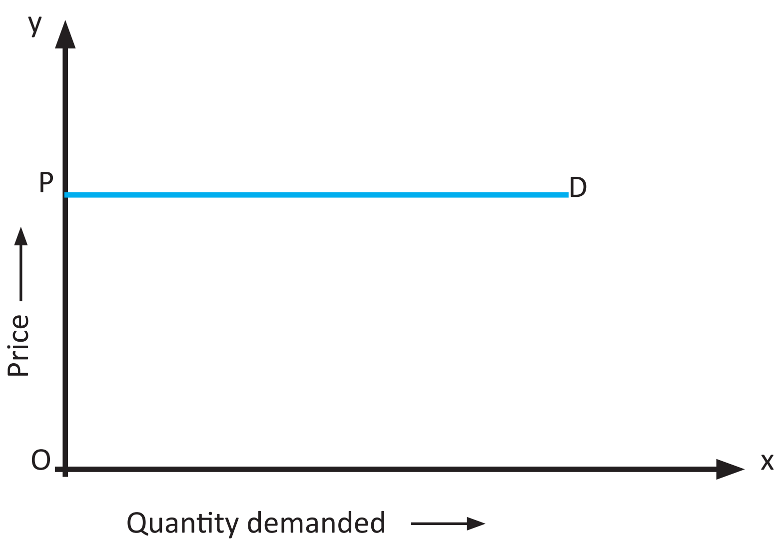


Figure 5.9 Perfectly elastic demand

v. Perfectly Inelastic Demand

Demand is said to be perfectly inelastic when there is no change in the quantity demanded with the change in its price.

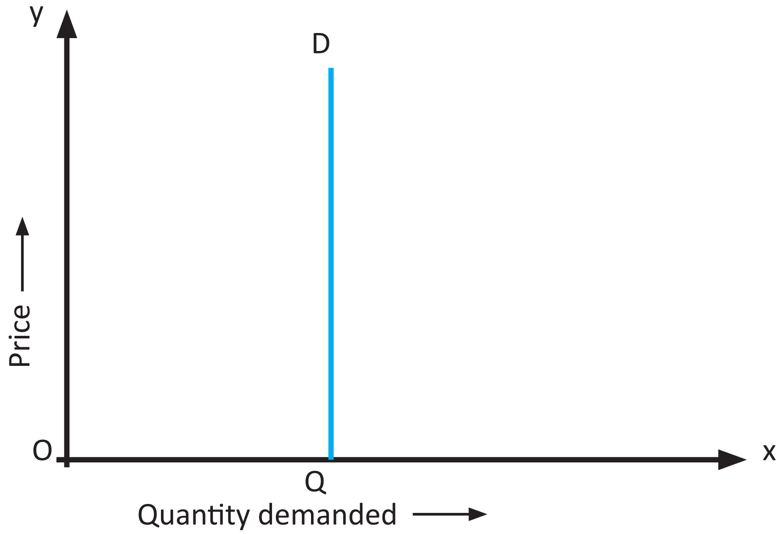
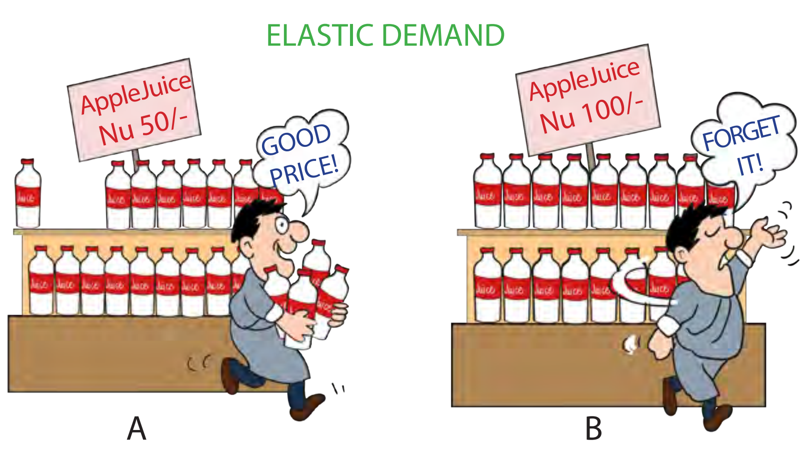


Figure 5.10 Perfectly inelastic demand

Learning Activity 5.4

Study the pictures in Figure 5.11 and answer the questions that follow.



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INELASTIC DEMAND

Figure 5.11

1. Which types of the goods have elastic demand:

   i) Non-essential or essential goods?

   ii) More substitutes or less substitutes?

2. With reference to the above example, find out some more examples of goods with elastic and inelastic demand.

Sl. No	Goods with elastic demand	Justification	Goods with inelastic demand	Justification
1.				
2.				
3.				
4.				
5.				

Review Questions

1. Explain some of the factors that affect the price.
2. Explain individual and market demand schedules.
3. With the help of suitable examples, explain the factors that influence the demand for goods and services..
4. According to Population and Housing Census of Bhutan (PHCB) Report 2017, there is an increase in population and income of consumers. What would be the impact of this situation on demand? Explain with the help of a diagram.
5. Why is it necessary for the government to regulate prices for some goods and services?

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CHAPTER 6

Supply and Law of Supply

Learning Objectives

- Define supply
- Explain factors affecting supply of goods and services
- State the law of supply
- Differentiate between individual supply and market supply
- Construct a supply curve based on the supply schedule
- Explain price elasticity of supply
- Illustrate and explain determination of equilibrium price of goods and services

6.0 Introduction

Demand and supply are the most important concepts in economics. The interactions between demand and supply determine the equilibrium market prices. The study of supply is complementary to the meaningful study of demand.

6.1 Supply

Supply refers to the total quantity of a commodity that a seller is willing to offer for sale at different prices during particular period. The total quantity of goods and services that the suppliers are willing to sell at given price is known as quantity supplied.

a. Factors Affecting Supply

Supply of commodity is determined by various factors. Some of them are discussed below.

i. Price of commodity

Changes in the price of commodity influence producers' decision in production of commodities. If the price of a commodity increases, producers will produce and supply more quantity of commodities, and will supply less if the price decreases.

ii. Change in technology

With the advancement in technology, the cost of producing goods and services will decrease. Therefore, at the same market price, the producers will produce more and supply will increase.

iii. Price of inputs

Price of inputs directly influences the supply of goods and services. For instance, if the price of inputs increases, producers will supply less.

iv. Agreement among producers

Sometimes, supply of commodities is influenced by the agreement among producers by controlling the supply of commodities to earn more profit.

v. Future price expectations

If producers expect the price of a commodity to rise in future, then they will postpone the decision of selling at the current price and the supply will fall.

b. Law of Supply

Law of supply explains the relationship between price of the commodity and quantity supplied. It states that other things remaining same, supply for a particular commodity increases with the increase in price and vice versa. There is direct relationship between the price and quantity supplied. This law can be illustrated with the help of supply schedule and supply curve.

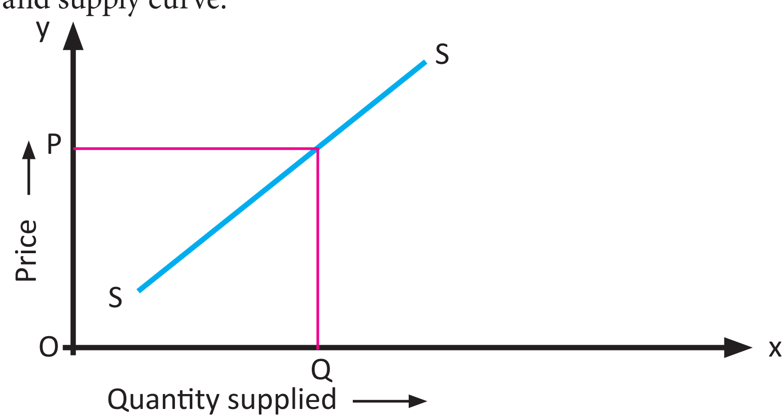

Figure 6.1 Law of Supply

c. Supply Schedule

The tabular representation of the relationship between price and supply is called supply schedule.

Table 6.1 Individual supply schedule

Price of apple per kg (Nu)	Quantity supplied per day (kg)
80	12
120	18
160	24

Table 6.2 Market supply schedule

Price per kg (Nu)	Quantity supplied by Firm A (kg per week)	Quantity supplied by Firm B (kg per week)	Quantity supplied by Firm C (kg per week)	Total market supplied (kg per week)
80	50	48	28	126
100	60	58	38	156
120	70	68	48	186

d. Supply Curve

Supply curve is a graphical representation of supply schedule. It is upward sloping showing the direct relationship between price and quantity supplied.

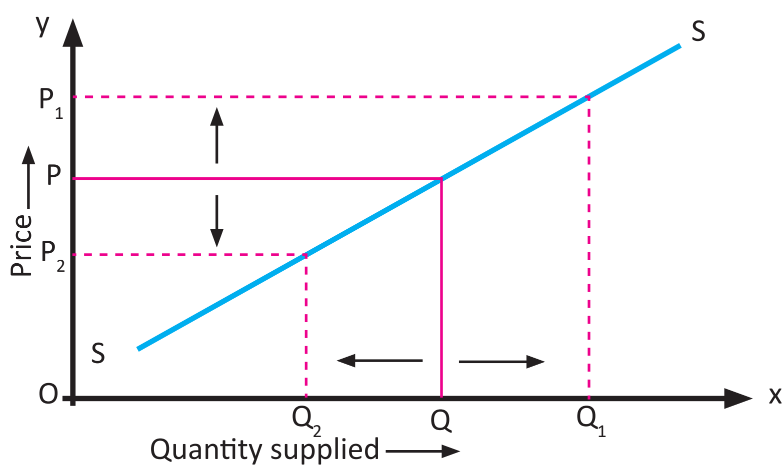

Figure 6.2 Supply curve

X axis represents the quantity supplied and Y-axis shows the price of the commodity. SS is the supply curve which shows the direct relationship between the price and the quantity supplied.

Initially, when the price of commodities is at OP, the quantity supplied is OQ. As the price increases from OP to OP_1, the quantity supplied also increases from OQ to OQ_1. When price of commodity decreases from OP to OP_2, the quantity supplied also decrease from OQ to OQ_2.

Learning Activity 6.1

Refer Table 6.2 Market supply schedule and answer the following questions.

1. Draw individual supply curve for firm A
2. Derive market supply curve.
3. Explain the meaning of individual supply schedule and market supply schedule.
4. Study the graph you have drawn and state the properties of supply curve.

e. Movement along the Supply Curve

Movement along the supply curve is caused by change in supply due to change in price, other factors remaining constant. In Figure 6.3, Y axis represents price and X axis represents supply.

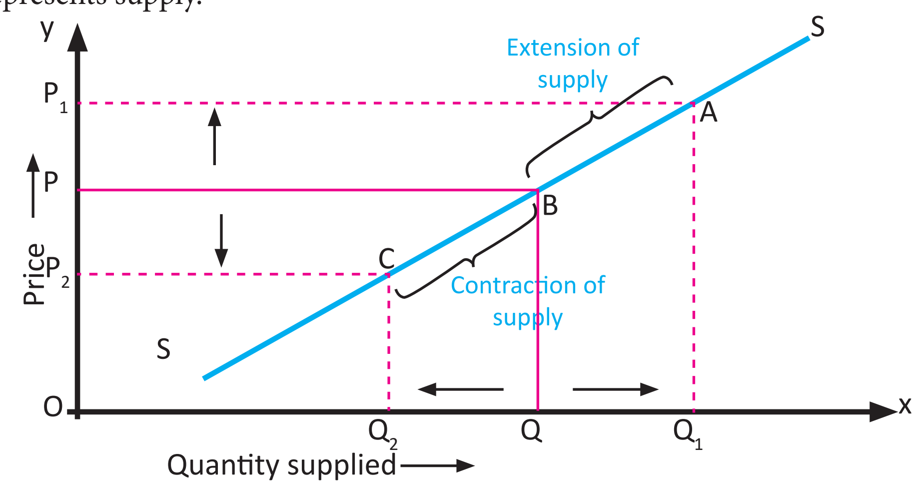

Figure 6.3 Movements along the supply curve

Initially when the price is OP, the quantity supplied is OQ. When the price increases from OP to OP_1, the quantity supplied increases from OQ to OQ_1. This is called extension of supply.

On the other hand, when the price falls from OP to OP_2, the quantity supplied decreases from OQ to OQ_2. This is called contraction of supply. These movements from points A to B, and A to C represent movements along the supply curve.

f. Shifts in Supply Curve

When supply changes due to change in other factors, such as input prices, technology, and agreement among the producers, it will cause the supply curve to shift. Rightward shift of supply curve indicates increase in supply and leftward shift of supply curve indicates decrease in supply.

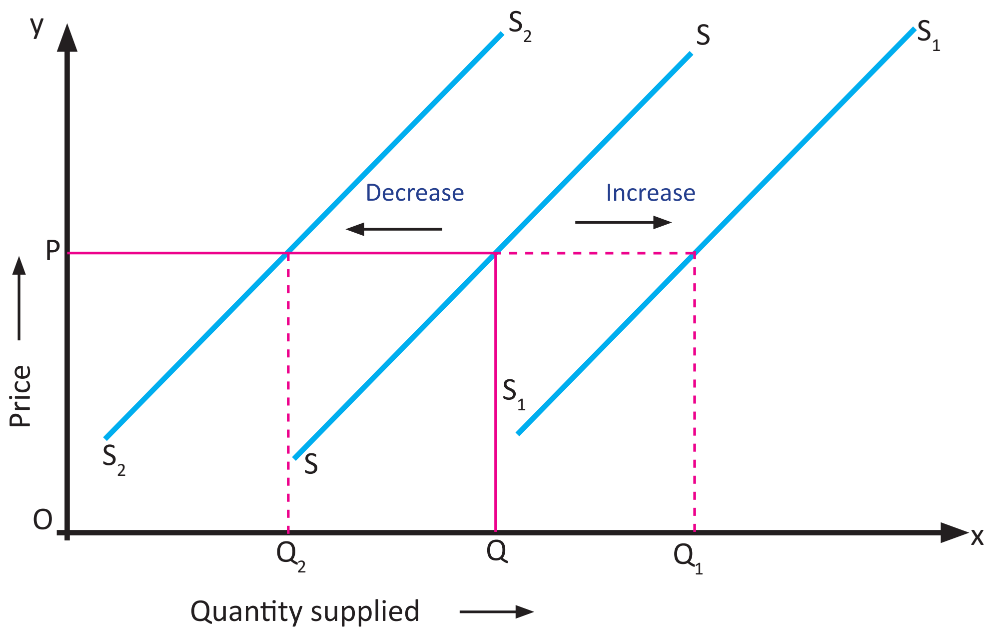

Figure 6.4 Shift in supply curve

As shown in Figure 6.4, when the price is OP, the quantity supplied is OQ. Price remaining same at OP, the quantity supplied increases from OQ to OQ_1. This is called increase in supply. Similarly, at the same price OP the quantity supplied decreases from OQ to OQ_2. This is called decrease in supply. Rightward or leftward shift of the supply curve, SS to S_1S_1 and SS to S_2S_2, represents shift of the supply curve.

6.2 Elasticity of Supply

Elasticity of supply shows how the quantity supplied changes in response to the change in its price.

a. Price elasticity of supply

Price elasticity of supply is the degree of responsiveness of quantity supplied of a commodity to a change in its price.

$$\text{Price Elasticity of Supply}(E_S) = \frac{\%\ \text{change in quantity supplied}}{\%\ \text{change in its price}}$$

b. Types of price elasticity of supply

i. Elastic Supply

Supply is said to be elastic when a percentage change in the quantity supplied is greater than the percentage change in its price.

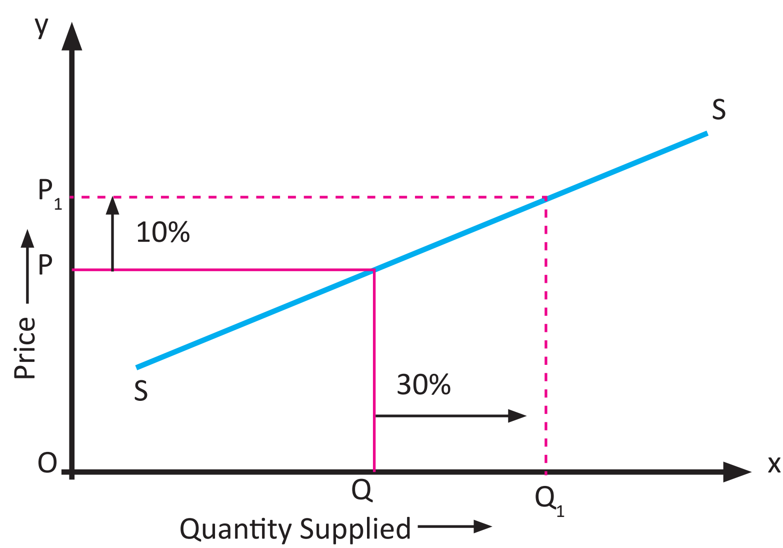

Figure 6.5 Elastic supply

ii. Inelastic Supply

Supply is said to be inelastic when a percentage change in the quantity supplied is less than the percentage change in its price.

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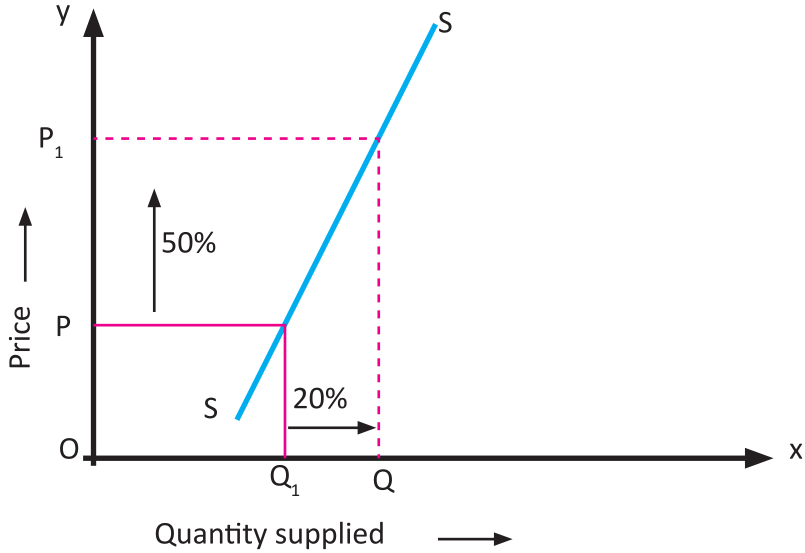

Figure 6.6 Inelastic supply

iii. Unitary Elastic Supply

Supply is said to be unitarily elastic when percentage change in the quantity supplied is equal to the percentage change in price.

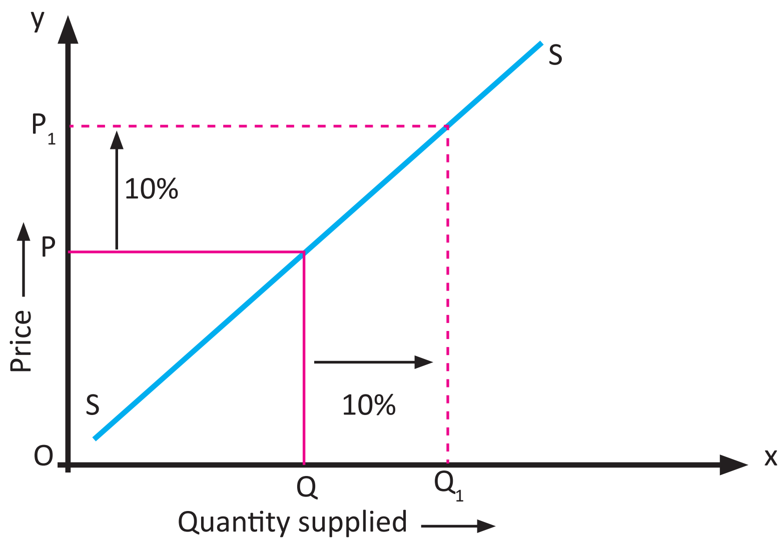

Figure 6.7 Unitary elastic supply

iv. Perfectly Elastic Supply

Supply is perfectly elastic when change in supply is infinite with small or no change in price.

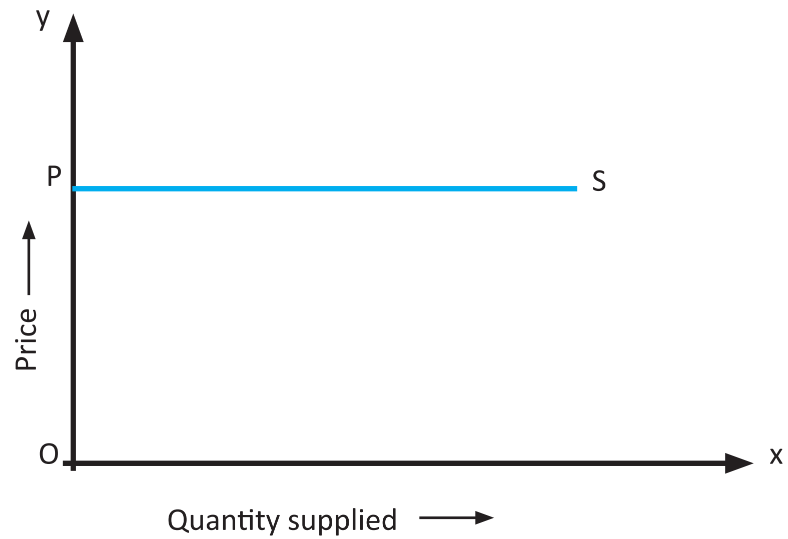

Figure 6.8 Perfectly elastic supply

v. Perfectly Inelastic Supply

Supply is perfectly inelastic when there is no change in supply with the change in its price.

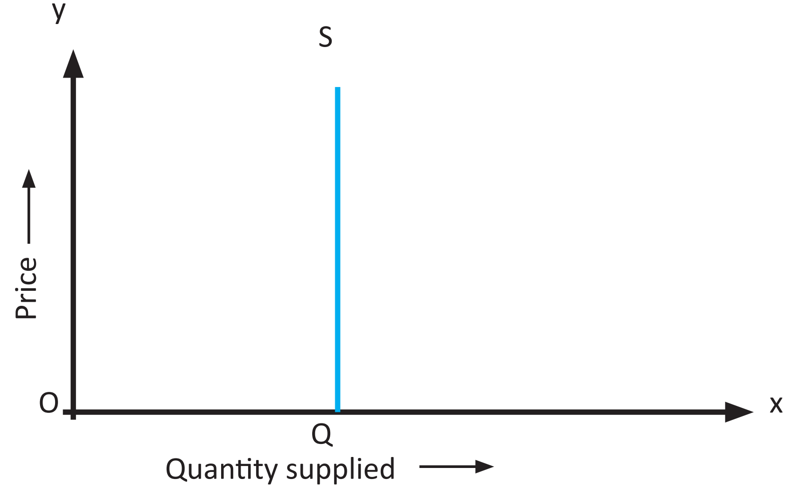

Figure 6.9 Perfectly inelastic supply

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6.3 Determination of Equilibrium Price

The price of the goods and services is determined by the interplay of demand and supply. The market is said to be in equilibrium when quantity demanded is equal to quantity supplied. The price at which the quantity demanded is equal to quantity supplied is called the equilibrium price. Sometimes in the market, quantity supplied is more than the quantity demanded which leads to excess supply and vice versa.

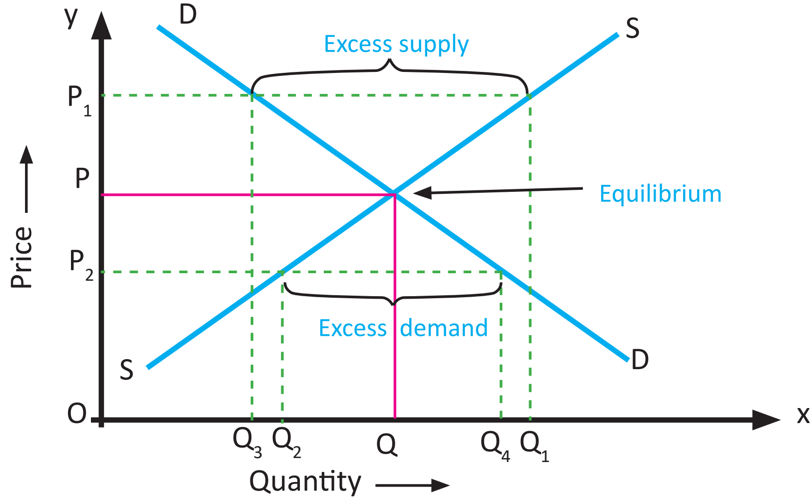

Figure 6.10 Determination of equilibrium price

Learning Activity 6.2

Use Table 6.3 to answer the questions that follow.

Table 6.3

Price (Nu)	Quantity Demanded	Quantity Supplied
10	60	20
20	50	30
30	40	40
40	30	50
50	20	60

1. Find the equilibrium price and the equilibrium quantity.
2. Discuss the market situations when the price of commodity increases from Nu 30 to Nu 40, and decreases from Nu 30 to Nu 20.

Review Questions

1. How would a decrease in input price of a particular commodity influence the supply of that commodity in a market? Explain with the help of suitable diagram.

2. Explore some examples of goods in your locality that are price elastic supply and price inelastic supply. Share your findings to the class.

3. If you were a business person, how would you apply the idea of elasticity of supply?

4. With the help of a diagram, explain how the equilibrium price is determined.

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CHAPTER 7

Economic System

Learning Objectives

- Define the term economy
- Define economic system
- Identify different economic systems
- Explain the features of each economic system
- Explain the merits and demerits of each economic system

7.0 Introduction

Every economy must answer the three basic questions of what, how and for whom to produce. Countries solve these basic questions differently based on the economic system they follow. The study of economic system is about how economic decisions are made and how interactions take place among different units of the economy.

7.1 What is an economy?

All the economic activities that are carried out in a particular area is referred to as the economy of that area. Thus, an economy is a system prevailing in an area in which people produce goods and services. The economy of a particular country is governed by its culture, laws, history and geography. Economy can be classified into various categories such as national and global, traditional and modern, closed and open, developed and developing, capitalist and socialist economy.

The concept of green economy is also gaining its popularity across the globe as countries prioritise sustainable economic growth. This system operates with the end goal of cutting carbon emissions, restoring biodiversity, relying on alternative energy sources and generally preserving the environment.

7.2 Economic System

An economic system is a set of established mechanism and procedures by which a society solves its economic problems. It deals with the organizations and methods used to determine production, consumption, distribution, and exchange of goods and services in a particular society.

Different economic systems use different methods to solve their basic economic problems. While some countries follow a socialistic or capitalistic system, others follow mixed economic system.

7.3 Types of Economic System

There are three main types of economic system.

a. Capitalist Economic System

In capitalist economy, the productive resources are owned by private individuals who use these resources to earn profits. There is minimum interference from the government. This system relies on producers and consumers to make decisions about what, how and for whom to produce. A capitalist economic system is also known as a free market economy or laissez-faire economy.

Features of Capitalist Economic System

i. Private property

In a capitalist economy, all the factors of production are owned by private individuals. Every individual can acquire any amount of property and use them as they wish. Individuals can inherit the property from their forefathers and can also pass it on to their subsequent heirs.

ii. Profit motive

Profit maximization is the primary motive of a capitalist economy. All the producers allocate resources to produce goods from which they are able to earn more profit.

iii. Limited role of the government

Government does not interfere in the economic activities and daily functioning of the economy. However, it can regulate the producers in fulfilling certain social objectives.

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iv. Freedom of choice

In capitalism, every individual is free to make economic choices without any intervention from the government to both the consumers and the producers. Producers are free to produce any goods or services and the consumers are free to buy whatever they desire.

v. Price mechanism

Price mechanism operates based on unobservable market forces which Adam Smith referred to as ‘invisible hand’ control the functioning of the capitalist economy. The forces of supply and demand will determine the equilibrium market price and the level of productions in the economy.

b. Socialist Economic System

Socialist economic system is defined as an economic system in which the means of production are owned by the entire society and operated by the public authority to ensure welfare and equal opportunity to the people and society. The government controls and regulates the entire economic activities.

Features of Socialist Economic System

i. Collective ownership of resources

Government owns all the means of production in the interest of society as a whole. Therefore, the government aims at efficient utilisation of the country’s resources.

ii. Economic planning

The central planning authority allocates all productive resources according to the social and economic goals set by it. All the important decisions are taken by the state in the interest of the entire society.

iii. Social welfare

The motive of carrying out any economic activity is to maximise the interest and welfare of the entire society. The government emphasises on the need of the people while formulating plans.

iv. Economic equalities

A socialist economy aims at equitable distribution of national income. It aims in providing equal opportunities to all. However, it recognises that some income differences are essential in view of differences in skill, talent and efficiency of individuals.

v. Elimination of competition

Competitions among different firms do not exist in the socialist economy. The government takes the monopoly of producing all the goods and services. Therefore, a spirit of cooperation and goodwill prevails.

c. Mixed Economic System

Mixed economic system is a system having the features of both capitalist and socialist economy. This means that individuals, firms and government participate in the production process and decision making. Capitalism and Socialism are extreme forms of economic systems that hardly exist. Therefore, a mixed economic system prevails with different degrees of inclination towards capitalism or socialism.

Features of Mixed Economic System

i. Coexistence of public and private sectors

The public sector makes investments in those fields which are in the interest of the entire society. The private sector on the other hand, operates with the objective of earning profits. Public services such as defense, education, health and other basic amenities are provided by the public sector whereas, production of consumer goods are undertaken by the private sector.

ii. Economic planning

Economic planning is essential to promote economic development, ensure smooth functioning of the economy, and coordinate and regulate the operation of economic sectors.

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iii. Price mechanism and controlled price

In a mixed economic system, both price mechanism and controlled price prevails. Prices of some commodities are determined by the market forces while prices of certain essential commodities are controlled by the government.

iv. Regulation of private sectors

Government regulates and controls the operation of private sectors through policies such as taxation, subsidies and licensing policy.

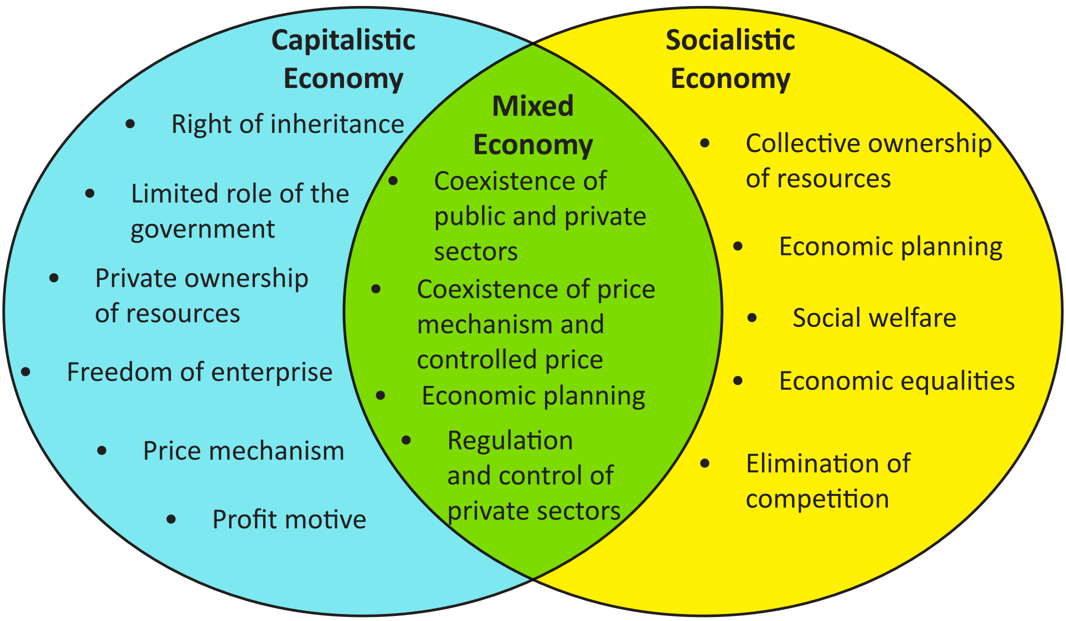

Figure 7.1 Comparison among economic systems

Learning Activity 7.1

1. Which economic system would you prefer if you were:

   i) an entrepreneur?

   ii) a policy maker?

   iii) a consumer?

   Give reasons for your choice.

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2. Which economic system is appropriate for Bhutan? Why?
3. Discuss the merits and demerits of the three economic systems and present it to the class.
4. Write the most appropriate answer.
   i) A planned economic system promotes ………………….
   ii) Price mechanism and ……………..... both prevail in a mixed economy.
   iii) One limitation of free market economy is ………………………
   iv) The main goal of………………….economy is to promote individual rights.
   v) The economic decision in a capitalist economy is taken by …………..

Review Questions

1. Differentiate between capitalist economic system and socialist economic system.
2. Which, according to you, is the best economic system? Give reasons.
3. What are some of the features of the Bhutanese economic system?
4. Capitalist economy creates 'haves' and 'haves not'. Discuss.

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CHAPTER 8

Money

Learning Objectives

- Define money
- Explain the historical development of money
- Explain the history of monetary system in Bhutan
- Examine the characteristics of good money
- Explain the functions of money

8.0 Introduction

In the early human civilisation, human wants were limited to those goods and services that were necessary to sustain life. With the economic growth and development, human wants increased and thus, led to increasing interdependence on each other. No one can produce everything that one needs. Therefore, people have to exchange goods and services among themselves to satisfy their wants. Thus, money was invented to serve as a medium of exchange.

8.1 Definition of Money

Money, in some forms, has been part of human history for at least 3,000 years. In ancient times the barter system prevailed. The difficulties of barter system made it necessary for people to devise some means to overcome the limitations. This led to the invention and use of money. Since then money has been playing a significant role in an economy. As a result, money evolved through a number of stages and its nature has been changing from time to time and from region to region.

According to Geoffrey Crowther, money is anything that is generally accepted as medium of exchange, and a measure and a store of value.

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8.2 Historical Development of Money

Money in the present form came into existence through a long process of evolution from commodity money to fiat money and today, in virtual form. The origin of money carries a long history of social evolution.

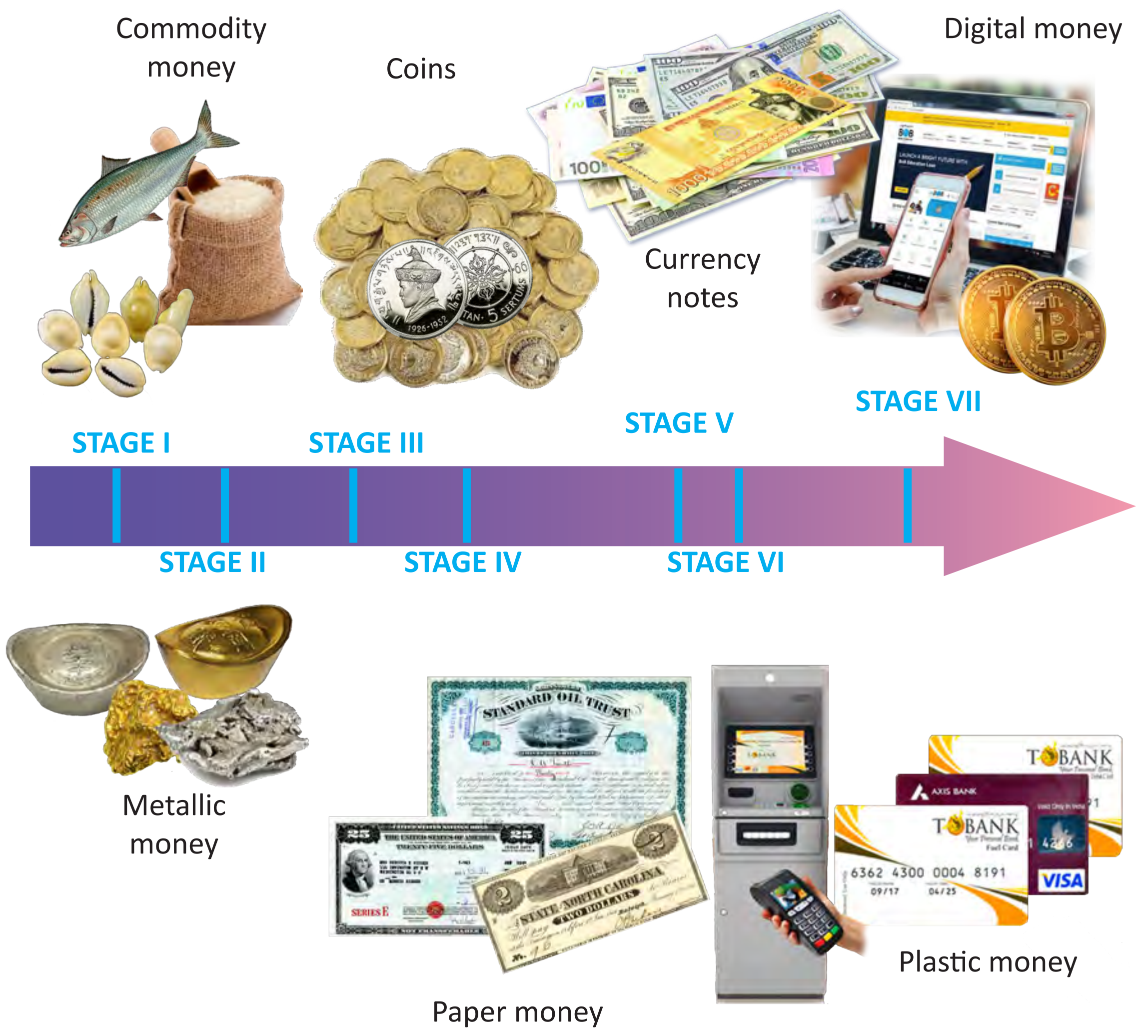

Figure 8.1 Evolution of money

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a. Commodity Money

Commodities were the earliest form of money. Commodities like rice, wheat, shells and beads were used as money because many people were willing to accept those in exchange for their produce. Such exchange of goods for goods was known as 'barter system'.

Figure 8.2 Ancient beads

b. Metallic Money

In the earlier times precious metals like gold, silver and bronze were used as money. These metals were more durable, divisible, scarce and valuable than commodity money. However, the use of precious metals did not solve the problems of exchange. It was difficult to measure the value with those pieces of metals besides the problems of bulkiness and storage.

Figure 8.3 Gold nuggets

c. Coins

The problems associated with precious metals were solved through the development of coins. Precious metals in predetermined weights were minted as coins. Each of these coins were stamped by the government often with the face of a king or queen on one side, and its value on the other. The popular use of coins continued till the end of 17th century.

However, the factors such as debasement of coin with other metals of lower grade, clipping of coin edge, and especially the intrinsic value exceeding its face value undermined the role of coin in an economy.

Figure 8.4 Coins

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d. Paper Money

Paper money was discovered by goldsmiths who were acting as money lenders. These goldsmiths used to keep the valuables of the people in the safe rooms and issued receipts as a proof of the goods stored. These receipts became convenient credit instruments and were freely used for borrowing, lending and making payments. However, the owners of the paper receipts soon realised that they were holding worthless papers. This resulted in the collapse of goldsmith bankers.

Figure 8.5 Paper money

e. Currency Notes

With the collapse of goldsmith banks due to over issuance of paper receipts beyond their worth, the government took over the role of goldsmiths and started issuing currency notes. The invention of currency notes greatly facilitated trade and commerce resulting in economic growth and development. Today the central bank of a country reserves the sole authority to issue paper notes.

Figure 8.6 Currency notes

f. Plastic Money

Plastic money gained popularity in the form of Credit and Debit cards. With the invention of such money, it has become more convenient for the people to carry out economic transactions. Moreover, it has reduced the risk of carrying cash in bulk.

Figure 8.7 Plastic money

g. Digital Money

The invention of computer and its application has changed the way in which business is carried out. The concept of e-commerce is gaining popularity. The mode of payment is being changed from cash to electronic transaction. This form of electronic payment is referred to as Digital money. Transaction of such money uses technologies such as smart phone, credit cards and online crypto currency exchanges. In some cases, the digital money can be transformed into physical cash, for example, by withdrawing cash from an Automated Teller Machine (ATM).

The evolution of money is never ending process. As economies of the world are changing their forms and features, money is also changing accordingly to meet the needs of the changing economies. Globalization and expansion of e-commerce has given new dimension to modes of payment and has shaped the nature and features of money.

Figure 8.8 Digital Money

8.3 Historical Development of Monetary System in Bhutan

Historically, Bhutan started the use of currency notes late. Since time immemorial, the Bhutanese had used commodities to facilitate exchange. However, due to a broadening size of market as a result of accessibility and socio-economic development, Bhutan experienced a series of changes in terms of monetary system.

Barter system prevailed in the country before trade was monetised. In the 18th century, the first silver coins were introduced mainly for trade with India and Tibet. Later came alloyed silver, copper and brass coins. Silver coin production continued even during the reign of the First Druk Gyalpo Ugyen Wangchuck in the 20th century.

Later, in 1928, during the reign of the Second King Druk Gyalpo Jigme Wangchuck, fine machine-struck silver and copper coins were introduced, marking the beginning of modern coinage in the country.

In the mid 1950s, during the reign of Third King Druk Gyalpo Jigme Dorji Wangchuck, trade began to be monetized gradually. In 1968, the Bank of Bhutan was established, thereby fully monetising the economy.

Coinciding with the coronation of His Majesty the Fourth Druk Gyalpo Jigme Singye Wangchuck, the monetary reform started in 1974. The Ministry of Finance issued the first Bhutanese currency note, Ngultrum.

In 1982, the Royal Monetary Authority (RMA) was established to act as the central bank of the country. Since then, financial and monetary system has been regulated by the RMA. With the advent of modernisation, the use of plastic money such as debit and credit cards has become popular. Further, with the increasing popularity of e-commerce, financial institutions in Bhutan facilitate trade by making it accessible to consumers through improved communication and internet facilities. Thus the concept of digital money has been introduced.

(Source: History of currency in Bhutan, Kuensel excerpt, January 28, 2015; Newsletter; Thinley Zangmo)

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Learning Activity 8.1

1. How significant was coinage in ancient Bhutan?
2. State the conveniences and limitations of plastic money.
3. With e-commerce gaining popularity, the digital system is vulnerable to the risk of online scams. Suggest some ways to protect from such threats.

8.4 Characteristics of Good Money

For money to perform its functions effectively and efficiently, it must possess certain qualities. The money that possesses these qualities or characteristics is termed as good money. These characteristics are discussed below.

a. Acceptability:

Money must be acceptable by all as a means of exchange. Anything can be used as money as long as it is generally acceptable as medium of exchange.

b. Durability:

Good money must be strong and durable. It should withstand a number of exchanges.

c. Portability:

Good money must be easy to carry from one place to another even in bulk. Money has become portable with the invention of paper and plastic money.

d. Divisibility:

Good money should be divisible. It should be convenient enough for people to give or receive the exact amount of change after the purchase of good and services.

e. Scarcity:

Scarcity is one of the characteristics of good money. Only if it is scarce, people will value the money as a commodity that can be used in exchange.

8.5 Functions of Money

Money has become so important that the modern economy is described as money economy. Money performs many functions in the modern economy. The most important functions are given in the form of statement: "Money is a matter of functions four – a medium, a measure, a standard, a store."

a. Medium of exchange:

One of the most important functions of money is that it acts as a medium of exchange. Money is accepted freely in exchange for all goods and services.

b. Measure of value:

Money acts as a common measure of value. It is a unit of account and a standard of measurement. Whenever we buy a good in the market, we pay a price for it in the form of money. Price is a value expressed in terms of money. So, the value of a good is measured by the amount of money paid for it.

c. Store of value:

Money acts as a store of value. A person who wants to store his or her wealth in some convenient form will find money suitable for that purpose. Suppose one has a thousand cows, their value can be preserved in the form of money by selling them.

d. Standard of deferred payments:

Money is used as a standard for future payments. Business in modern times is based on credit to a large extent. Therefore, money acts as the basis for credit transactions without losing its value.

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Learning Activity 8.2

Figure 8.9

1. Which type of money is convenient for regular exchange of goods and services? Justify.
2. Examine if the Bhutanese currency notes (Ngultrum) possess the characteristics of good money.
3. Define money in your own words.

Review Questions

Choose the correct term to fill in each of the blanks.

Globalization, Currency, Debit card, Geoffrey Crowther, Credit card, Cheque

1. ____________ is a document, normally supplied in printed form by a bank, ordering the bank to transfer funds from the drawer's current account to a named payee.

2. ____________ defines money on the basis of its functions such as, medium of exchange, and measure and as a store of value.

3. ____________ is strictly, that component of a country's money stock that literally circulates from hand to hand i.e. coins and bank notes. But the term is also used in the broader sense of a country's money.

4. ____________ is the process by which businesses or other organizations develop international influence or start operating on an international scale.

5. ____________ is a card that allows the holder to transfer money electronically from his/her bank account when making a purchase.

6. ____________ is a card issued by a bank, building society, etc., allowing the holder to purchase goods and services on credit.

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CHAPTER

9

Market

Learning Objectives

- Explain market
- Distinguish types of market based on geographical boundary and degree of competition
- Explain features of perfect competition, monopolistic competition, monopoly and oligopoly markets

9.0 Introduction

Traditionally, a place where purchase and sale of commodities occur is termed as market. With the advent of technology and growth in economic activities, the nature and scope of market have changed. Market now has a wider concept and is categorised into different forms. Thus, this chapter discusses each forms of market and evaluates which market is the best for an economy.

9.1 Market

Market is a place where goods and services are bought and sold. However, in economics, market has a much wider concept than just a place. It is a situation in which buyers and sellers interact to carry out exchange of goods and services. For anything to be called a market, there should be interactions among buyers and sellers to make a deal on commodities to be exchanged.

9.2 Types of Market

As discussed above, market has a very wide scope. Market can be classified based on the geographical location and degree of competition.

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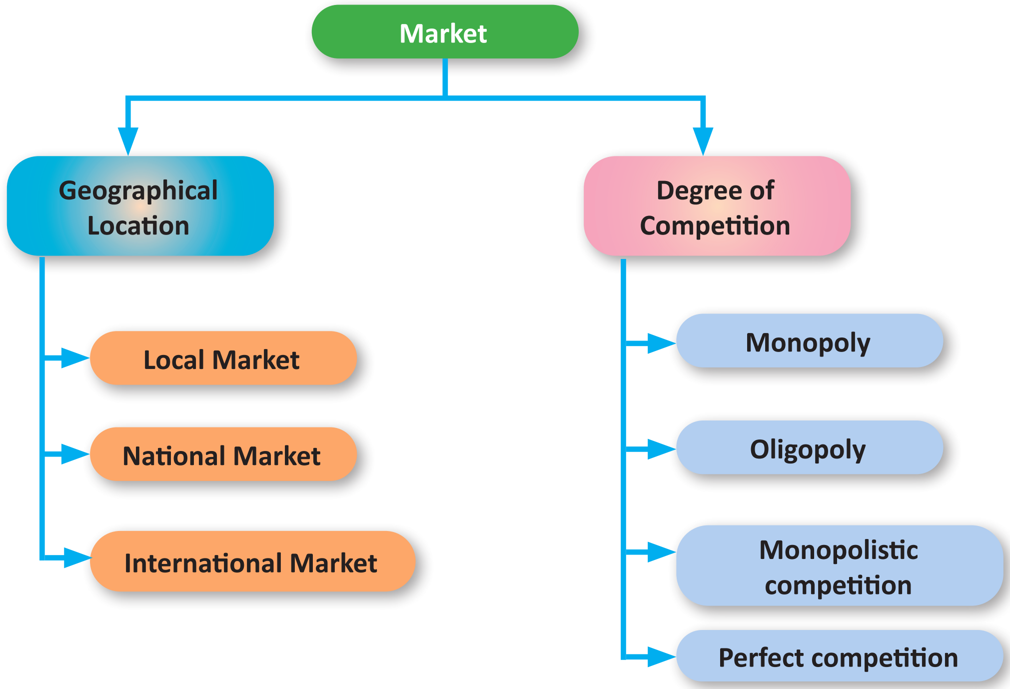

Figure 9.1 Types of market

a. Market Based on Geographical Location

On the basis of geographical location, market can be classified into three types:

i. Local Market

It is a situation or a place where exchange of goods and services takes place within a locality. Fresh and perishable products are mostly sold in local markets. Some of the examples of commodities available in the local market are cheese, butter, milk, vegetables and fruits.

ii. National Market

National market is a situation where exchange of goods and services takes place within the geographical boundary of a country. The sale of bamboo products from the Kheng region across the country is an example of national market.

iii. International Market

A situation in which exchange of goods and services that takes place between two or more countries is called international market. For example, commodities

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like electricity, apples and oranges are produced and sold by Bhutan to India and Bangladesh. Therefore, India and Bangladesh are Bhutan's international market for these commodities.

Figure 9.2 Market Category based on Geographical Location

Learning Activity 9.1

1. List down the similarities and differences among local, national and international markets.
2. Choose the correct response from the following:

   i) Bhutan Power Corporation Limited (BPCL) supplying electricity to India is an example of

   A. local market B. national market C. international market

   ii) All of the following goods are exchanged in the national market, EXCEPT

   A. Hyundai car B. kishuthara C. Cement

   iii) Dophu from Pakshikha selling chilli in the Chukha vegetable market is an example of

   A. local market B. national market C. international market

b. Market based on Degree of Competition

Market can also be classified into different forms based on the degree of competition. Degree of competition depends on the number of buyers and sellers, nature of products and capacity of sellers to influence the market demand.

Figure 9.3 Market based on the Degree of Competition

i. Monopoly

Monopoly market structure is characterized by a single seller, selling unique product with no close substitutes to large group of buyers. There are barriers for the new firms to enter the market. Monopolists are called 'price makers' as they have the power to influence the price of the products. As a result, monopoly firms can earn abnormal or super normal profits.

ii. Oligopoly

Oligopoly is a market structure which is dominated by a few large firms selling either homogeneous or differentiated products. Intense competition and interdependence amongst firms prevail in this market. Firms are interdependent on one another since no single seller can afford to ignore actions and reactions of other firms while making decisions. They also compete with each other by manipulating both price and volume of production.

iii. Monopolistic Competition

Monopolistic competition is a market structure where many firms sell differentiated products which are close substitutes of one another. Goods and services of different firms are differentiated from one another through various marketing strategies. The number of buyers and sellers are lesser than the perfect competition but more than monopoly market. The firms have the freedom to enter and exit the market.

iv. Perfect Competition

Perfect competition is a market structure where there are large number of buyers and sellers dealing with homogeneous products. No single buyer or seller can influence the price of a commodity in such a market. They are therefore, considered as price takers'. Further, firms have the freedom to enter and exit the market.

Learning Activity 9.2

1. Fill in the table.

Features	Perfect competition	Monopoly	Monopolistic competition	Oligopoly
Number of sellers				
Nature of product				
Entry and exit				

2. Bhutan Power Corporation Limited (BPCL) charges a higher electricity tariff for industries and low for domestic consumption in rural areas. Identify the market structure under which BPCL operates and discuss the possible reasons.

3. Sort out the scrambled words in column A and match with column B.

Column A	Column B
POLONOMY ………………...	Differentiated product
YOGILLOPO …………………	Homogeneous product
TOPICOMETIN CREPFET …………….	Interaction between buyers and sellers
NOMOCLOPSITI ………………...	Few sellers
KARMET ……………...	Abnormal profit

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Review Questions

1. Differentiate between
   i) Perfect competition and monopoly.
   ii) Monopolistic competition and oligopoly.
2. Which are the market structures that deal with differentiated products? Explain how product differentiation is created in the market.
3. Give few examples of differentiated products.
4. Which market structure is most prevalent in reality? Explain.
5. Market has been classified based on the degree of competition. Which market do you think is more prevalent in Bhutan? Explain which market is better for the Bhutanese economy.

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CHAPTER 10

Trade

Learning Objectives

- Define basic concepts of domestic and international trade
- Give examples of domestic and international trade
- Explain the reasons for trade
- Explain the impact of external and internal trade on the countries
- Discuss the concept of absolute and comparative cost theories
- Mention major trading partners of Bhutan and commodities traded
- Examine e-commerce

10.0 Introduction

All countries across the world are endowed with different resources. However, no nation has enough resources to meet all its needs, and this has resulted in the exchange of goods and services with other nations. This chapter explains the need for trade and its associated impacts. Further, the role of information-technology on trade is also discussed.

10.1 Meaning of Trade

The term 'trade' refers to exchange of goods and services in a market. Trade can be among individuals, within the country and among different countries.

10.2 Types of Trade

a. Domestic Trade

Domestic trade, also known as internal trade, is the exchange of goods and services within a country. It can be at local, regional or national levels. Trading of cement within Bhutan is an example of a domestic trade.

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b. International Trade

International trade or external trade, is the exchange of goods and services between two or among more countries. Trade between two countries is called bilateral trade, while trade involving more than two countries is called multilateral trade.

International trade consists of export and import. Import is the flow of goods and services into a country while export is the flow of goods and services out of a country. Export of electricity by Bhutan to India and import of petroleum products from India to Bhutan are examples of international trade.

Learning Activity 10.1

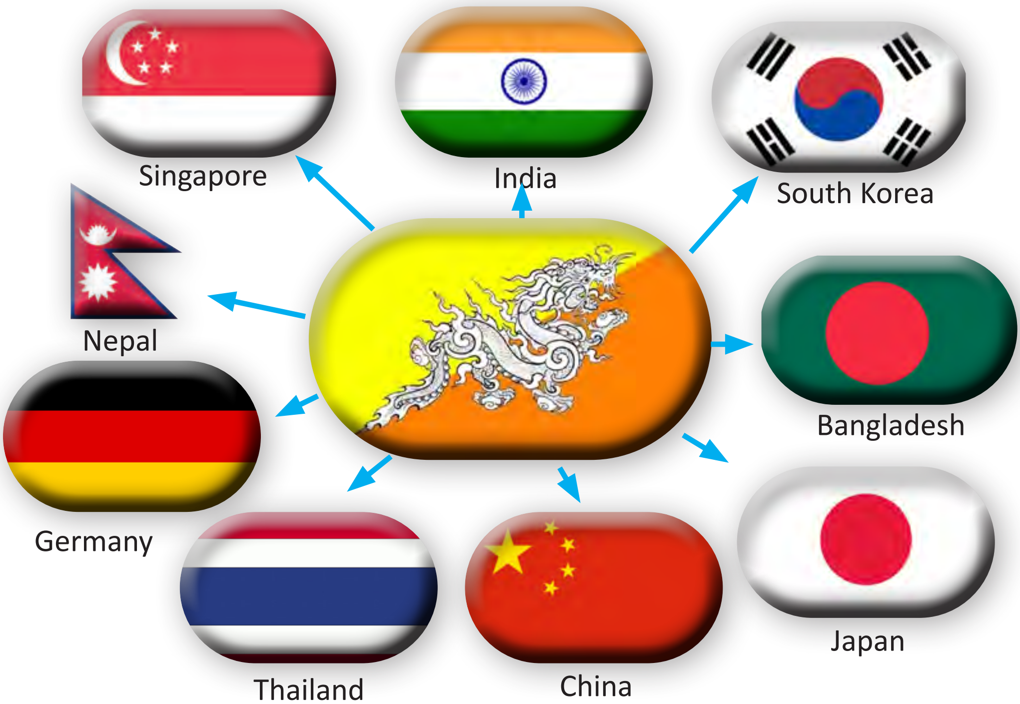

Figure 10.1 Some trading Partners of Bhutan

1. Figure 10.1 shows some of the trading partners of Bhutan in the year 2017. Find out whether Bhutan still trades with these countries and list down the major trading partners in the current year.

2. List down some major import and export items of Bhutan.

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Know More

Bhutan's Trade Journey

In early days, Bhutan followed the policy of self-imposed isolation, but engaged in active trading with immediate neighbouring states of India and Tibet. With the initiation of First Five Year Plan in 1961, trade was emphasised as the engine of economic growth. Thereon, Bhutan began to open its doors for trade to the rest of the world. In 1972, Bhutan signed first formal bilateral trade agreement with India, with an objective to establish a free-trade system between the two countries. Bhutan signed a free trade agreement with India in 1974 and a Preferential Trading Arrangement with Bangladesh in 1980. Efforts are being made for greater liberalization and regional trade initiatives within South Asian Preferential Trade Agreement (SAPTA), SAARC Free Trade Agreement (SAFTA), and Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC). Bhutan has been constantly negotiating with the international organisations like World Trade Organisation (WTO), European Union and Association of Southeast Asian Nations (ASEAN) to create an enabling environment for trade.

10.3 Impact of Trade

Trade is the driving force of economic development. Some of the positive impacts of external and internal trade are as follows.

a. Positive Impact of Internal Trade

i. Promote Domestic Industries

Internal trade expands market for domestic goods and services. It encourages establishment of new domestic industries and expansion of the existing ones to cater to the increased demand.

ii. Varieties of Domestic Commodities

Internal trade facilitates consumers to consume varieties of commodities produced domestically in different regions of a country.

iii. Creates Employment Opportunities

Different regions of a country specialise in the production of different commodities on a larger scale. Large scale production requires huge resources including human resources. This leads to creation of employment opportunities in the country.

b. Positive Impact of International Trade

i. Variety of Commodities

International trade enables a country to consume a large variety of commodities. Without international trade, countries will not be able to get the commodities which are not produced within their own countries.

ii. Specialisation and Efficiency

Foreign trade allows a country to specialise in the production of those commodities for which it has more advantages. For instance, Bhutan can specialise in the production of hydroelectricity because of the availability of the fast-flowing rivers. Specialisation enables productive use of the available resources which enhances efficiency.

iii. Economic Development

International trade facilitates countries to import resources such as raw materials, technologies and knowledge which are required for their economic development. Trading countries can also earn revenue from the export of goods and services.

iv. International Cooperation

International trade promotes mutual cooperation among different countries. It creates an atmosphere of goodwill, friendship and mutual understanding among the trading countries.

Learning Activity 10.2

In teams, design posters on the topic 'Disadvantages of international trade in Bhutan'. Display your posters for a gallery walk. Observe the posters on display and answer the following questions.

i) List the disadvantages of international trade you observed from the posters.

ii) Suggest measures to minimise the disadvantages of international trade.

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10.4 Basis of Trade

Individuals, regions or countries generally specialise in producing those goods and services in which the cost of production is lower and exchange them with goods and services in which cost of production is higher. It is on the basis of difference in cost that trade takes place. There are various theories of international trade of which two are discussed.

a. Theory of Absolute Cost Advantage

Adam Smith propounded the theory of absolute cost advantage. He states that the fundamental basis of international trade is the difference in cost. According to the theory, countries should produce and export those goods in which it has absolute cost advantage and import those goods that a country has absolute cost disadvantage.

Table 10.1 Absolute Cost Advantage

Product	Per unit cost of production (Nu)	
	Bhutan	India
Rice	10	5
Apples	5	10

Assuming that both Bhutan and India allocate same amount of resources to produce the two products, apples and rice, Bhutan has absolute cost advantage in the production of apples. In other words, Bhutan can produce apples at a lower cost than India. Hence, Bhutan should specialise in the production of apples and export it to India, and import rice from India. On the contrary, India has absolute cost advantage in the production of rice. Therefore, India should specialise in the production of rice and export it to Bhutan and import apples from Bhutan.

Although the absolute cost advantage theory is considered as one of the popular trade theories, critics have pointed out some inherent weaknesses in explaining the two countries – two commodities trade models. This theory, for instance, fails to explain the trade situation between the two countries when one has absolute cost advantage in producing both the commodities. Against this backdrop, comparative cost theory was developed by David Ricardo.

b. Theory of Comparative Cost Advantage

Theory of comparative cost advantage was propounded by David Ricardo. The theory states that a country will specialise in the production of that commodity in which it has greater comparative cost advantage over another. Ricardo believes that two countries would trade even if one country has absolute cost advantage in production of all the commodities and the other country has absolute cost disadvantage.

Table 10.2 Comparative Cost Advantage

Product	Per unit cost of production (Nu)	
	Bhutan	India
Rice	10	18
Apples	2	20

Table 10.2 shows that Bhutan is more efficient in the production of both rice and apples than India. However, trade can still take place between Bhutan and India. Bhutan would specialise in production of apples because of the greater comparative cost advantage. On the other hand, India will specialise in production of rice given its comparative cost advantage over the production of apples. Thus, Bhutan will export apples and import rice from India, and India will export rice and import apples from Bhutan.

Learning Activity 10.3

1. Identify three main commodities that are traded between the region you come from with another region. How is this trade beneficial to both the regions?
2. List a few goods that Bhutan can produce as import substitutes. Why each of these goods should be produced in Bhutan.

10.5 E-commerce

E-commerce refers to the exchange of goods and services through electronic means such as the internet or mobile phone applications. It is a faster, cheaper and convenient method of exchange than conventional method of business.

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Figure 10.2 E-commerce

Features of E-commerce

i. Faster global reach

E-commerce is primarily carried out with the use of internet which seamlessly stretch across traditional, cultural and national boundaries and enables world-wide access. It is much faster than the conventional mode of business.

ii. Rich product information

The information regarding a product such as price, quality, quantity and availability are accessible in the form of video, audio, pictures, text and links.

iii. Interactivity

The use of technology in business increase interactions among the producers and consumers. E-commerce replaces the traditional face-to-face interactions.

iv. Cheap and convenient

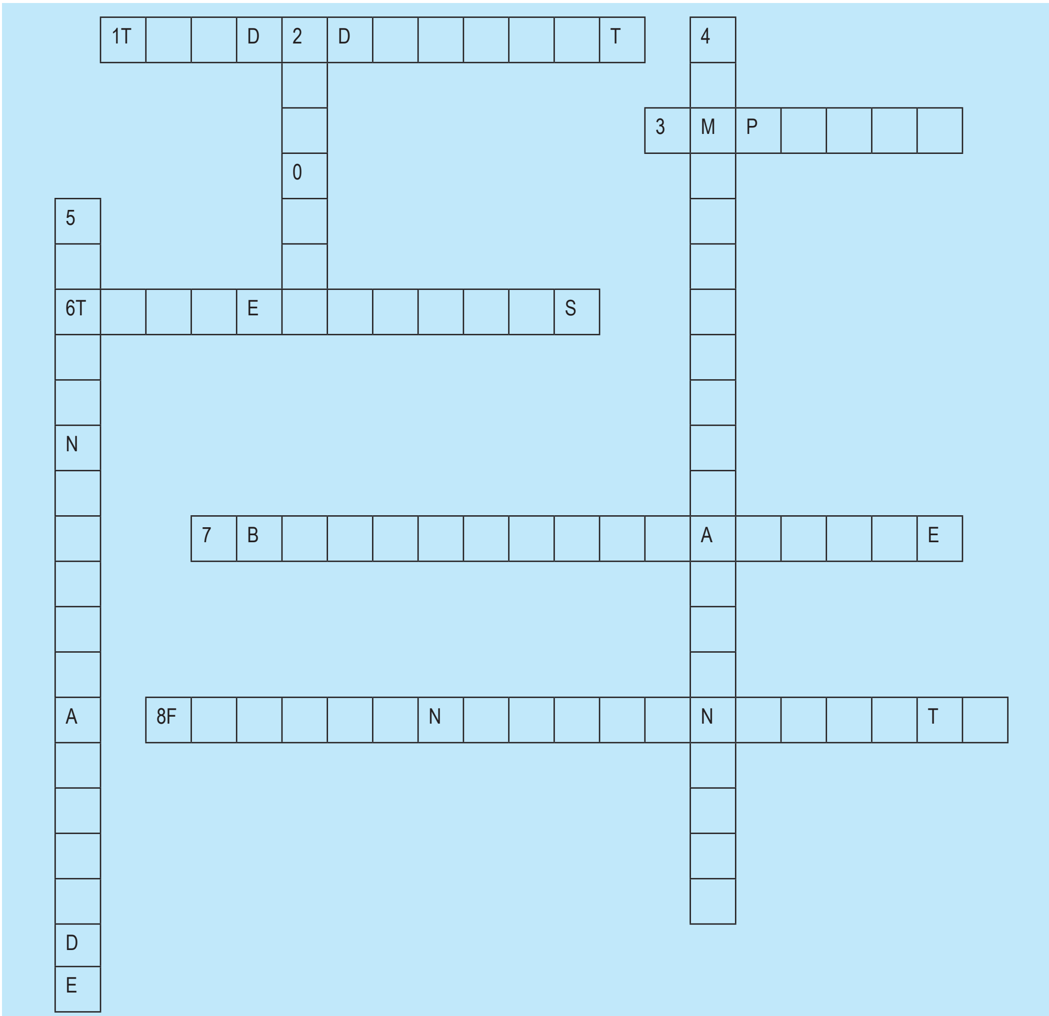
Customers do not have to travel long distances to reach their desired stores as e-commerce allows them to visit e-store online anytime anywhere. This makes business transactions cheaper and convenient for both the customers as well as producers.

Learning Activity 10.4

Figure 10.3

1. How is the market in Figure 10.3 different from the traditional market?
2. What benefits you would derive, if you use different media to exchange goods and services?
3. What are the benefits of e-commerce?
4. With the operation of different e-commerce companies, online shopping is becoming popular across the world. However, it has negative consequences as well. Discuss some of the negative consequences of e-commerce and suggest remedial measures.

Explore yourself



ACROSS

1. The amount by which the value of a country's import of goods exceeds their export of goods.
3. Buying or acquiring products or services from abroad.
6. The amount by which the value of a country's exports of goods exceeds the country's imports of goods.
7. The trade theory propounded by Adam smith
8. The rate at which one currency will be exchanged for another.

DOWN

2. Sale of products or services abroad.
4. The trade theory propounded by David Ricardo.
5. The exchange of goods and services beyond a country's boundary

Review Questions

1. Discuss why Bhutan imports more rice from India despite having suitable climatic conditions for paddy cultivation..
2. Examine the impacts of domestic and international trade.
3. What would be the consequences if Bhutan depends too much on international trade?
4. Should Bhutan explore more trading partners to gain from international trade. Justify your answer.
5. How will e-commerce benefit you? Explain.

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CHAPTER 11

Financial Institutions

Learning Objectives

- Define financial institution
- Differentiate the types of financial institutions
- Discuss the functions of central bank
- Explain the functions of commercial banks
- Explain inflation and its types based on degree of rise in price

11.0 Introduction

The evolution of money and its increasing use in daily business transactions have given rise to a need for financial institutions. Various banking and non-banking financial institutions were established over the period for financial regulations, and financial products and services. This chapter discusses the role of central bank and financial institutions in Bhutan. In addition, the effects of change in the general price level in an economy is discussed briefly.

11.1 Financial Institution

A financial institution is an establishment that provides different financial products and services to its clients. It serves as a link between savers and borrowers by accepting deposits and providing loans. Financial institutions also perform other financial activities such as investments, exchange of currencies and transfer of money.

11.2 Types of Financial Institutions in Bhutan

There are two types of financial institutions namely, Banking and Non-Banking Financial Institutions. Banking financial institutions are those that accept deposits, provide loans, manage withdrawals and provide general utility services to its clients. On the other hand, Non-banking financial institutions are those financial institutions that do not accept deposits repayable on demand but provide all other forms of financial services to its clients. Based on these functions, non-banking financial institutions are considered as both supplementary and competitors to the banking institutions.

The financial institutions operate under the guidance and regulation of the Central Bank. The central bank of Bhutan is the Royal Monetary Authority of Bhutan (RMA).

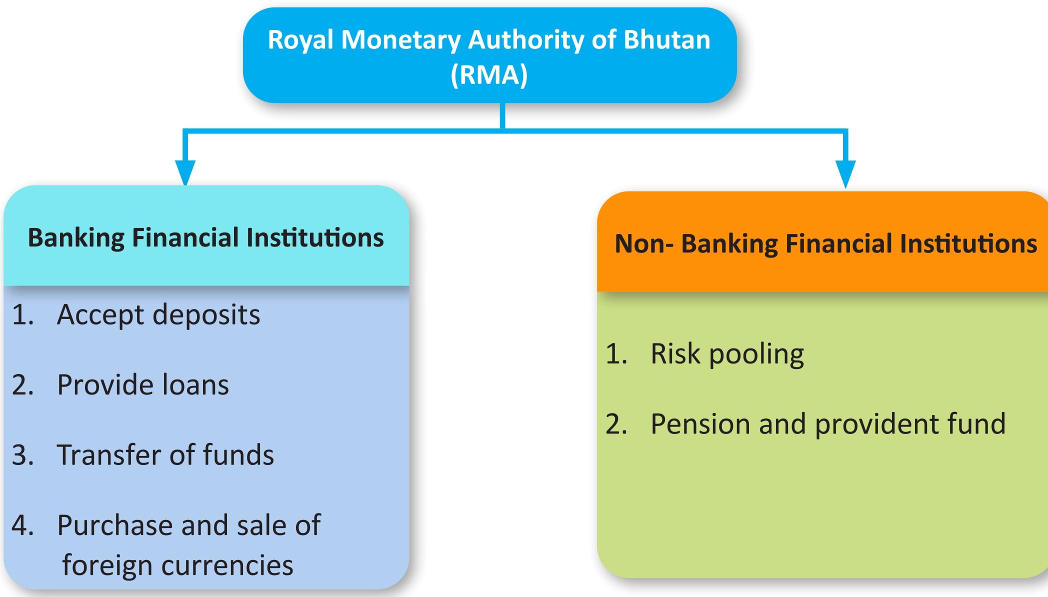

Figure 11.1 Financial institutions and their functions

a. Commercial Banks

Commercial banks are financial institutions which undertake banking business with the aim to earn profit. They perform a number of functions and provide numerous products and services to the government and various sections of the society. Some of the primary functions of commercial banks are:

i. Accept Deposits

Commercial banks accept deposits from the general public. Deposits are accepted in various forms at different rates of interest.

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ii. Provide Loans

Providing loans is another primary function of the commercial banks. Banks mobilise funds of the savers and provide loans to the clients. Loans can be defined as the amount of money granted to clients at specific rate of interest for a fixed period of time. In most cases, the borrower must mortgage their assets to avail the loan.

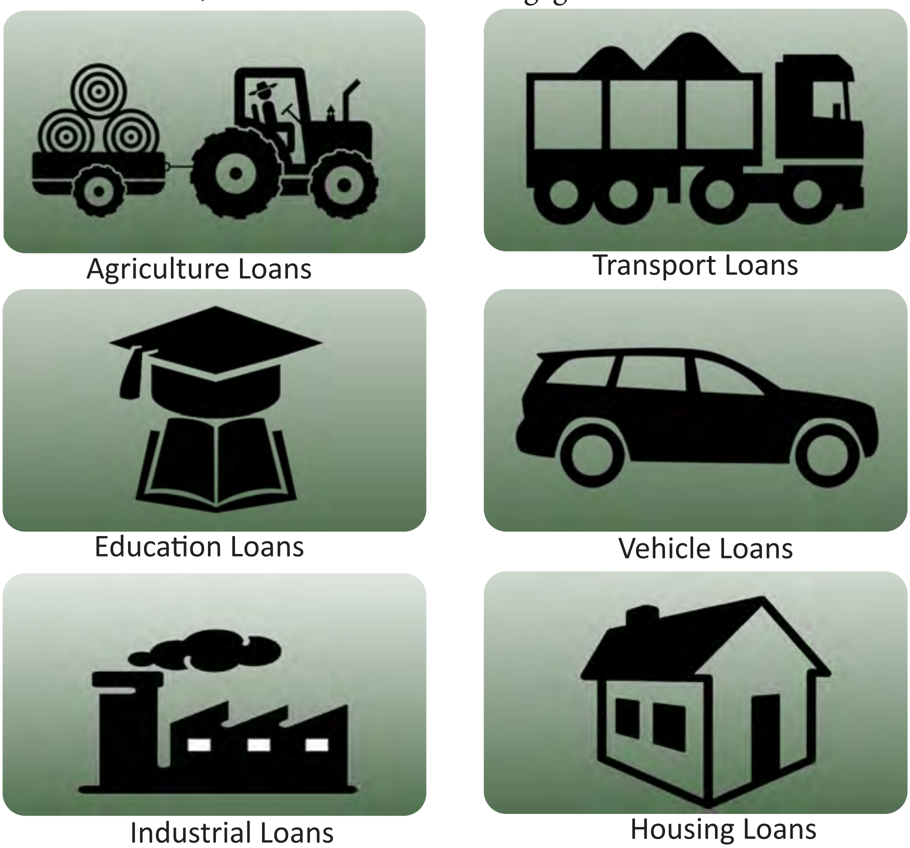

Figure 11.2 Types of Loans in Bhutan

iii. Transfer of Funds

Banks also facilitate the transfer of funds by means of draft, telephonic and electronic transfers. Fund transfers can be from place to place, person to person, and institution to institution.

iv. Purchase and Sale of Foreign Currencies

On authorisation by the central bank, commercial banks deal with foreign exchange. Commercial banks buy and sell foreign currencies in the country.

Learning Activity 11.1

1. Visit a nearest bank or any extension banking unit or find information about the banks to answer the following questions.

    i) List names of banking institutions in Bhutan.

    ii) What are the products and services provided by these bank?

    iii) Explain the different deposit schemes offered by the banks.

2. Generally, people spend heavily on improving their living standards by purchasing items such as electrical appliances, houses and cars. This leads to low rate of saving.

    i) Is it a good practice? Why?

    ii) What are some of the skills required to manage money efficiently?

    iii) As an economics student, how would you encourage saving habits of the people in your locality?

b. Non-Banking Financial Institutions

Non-Banking Financial Institutions (NBFI) are those banks that offer various financial services to the clients but do not accept demand deposits. NBFIs are considered supplementary as well as competitors to the commercial banks. Financial services offered by NBFIs include loans and credit facilities, insurance, pension and money transfer.

Some distinct functions of NBFIs are mentioned below.

i. Risk Pooling

NBFIs such as insurance companies facilitate economic activities by underwriting risks associated with death, illness, damage or loss of property. Such risks are transferred from the clients to insurance companies.

ii. Pension and provident fund

NBFIs like National Pension and Provident Fund (NPPF) provides social securities such as pension and provident fund to its members on retirement, disability and illness. The benefit is also provided to the nominee(s) in case of death of the member.

Learning Activity 11.2

1. Observe Figure 11.3 and answer the questions that follow:

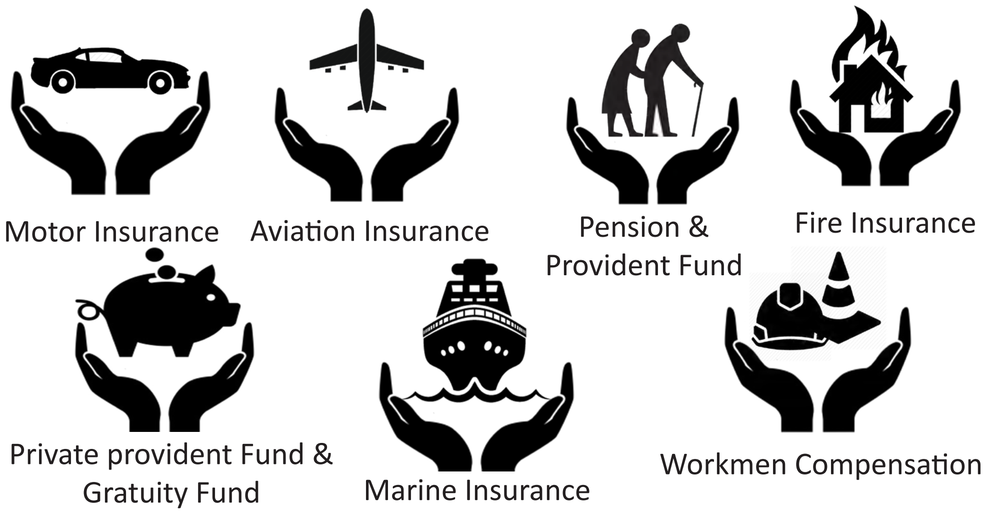

Figure 11.3 Insurance and Pension Schemes

   i) What are the various insurance schemes provided by the insurance companies in Bhutan?

   ii) Which insurance scheme is most applicable to employees? Why?

2. Tshomo runs a small shop in Bajo town. As the number of consumers increases, she sees the scope of expanding the business. However, she is confused due to limited financial resources, inadequate knowledge and the risks involved.

   i) Will Tshomo be able to pursue her dreams of expanding her business? Give reasons.

   ii) If you were Tshomo, what would you do to expand the business?

   iii) How would people like Tshomo reduce the risk involved in business?

3. Ask your parents or relatives, if they have any insurance policy with insurance companies. If they have, what are the reasons for insuring? If not, what would be the implications?

11.3 The Central Bank of Bhutan

The Royal Monetary Authority of Bhutan (RMA) is the central bank of Bhutan. It was set up in 1982 under the Royal Monetary Authority Act passed by the 56th session of the National Assembly of Bhutan. The RMA primarily issues currency, controls and regulates banking and financial structure of the country.

Figure 11.4 RMA

Functions of RMA

i. Issue of Currency

The RMA has complete control over the issue of banknotes and coins in the country. While issuing the currency, RMA ensures that inflation in the economy is kept under control and at the same time, there is sufficient circulation of money within the country.

ii. Regulation of Financial Institutions

The RMA formulates various financial rules and regulations for the prudent conduct of all the financial institutions in the country. It fixes maximum and minimum rates of interest on deposits and loans, determines cash reserve ratio, issues licenses financial institutions and supervises daily banking activities.

iii. Banker to the Government and Commercial Banks

The RMA accepts deposits and provides loans to the government and the commercial banks at agreed interest rates. It provides ultimate financial help to the government and the commercial banks during emergencies. For this reason, the RMA is also called 'the lender of last resort'.

iv. Promotion of Financial Sector Development

The RMA takes responsibility to establish an effective financial system in the country. It supports financial transactions necessary for the smooth functioning of the economy.

11.4 Digital Financial Services

The RMA also provides digital financial services (DFS). DFS provides a range of affordable, convenient and secure banking services to people in emerging economies. Digital financial inclusion promotes efficient interconnection among participants in economic activities.

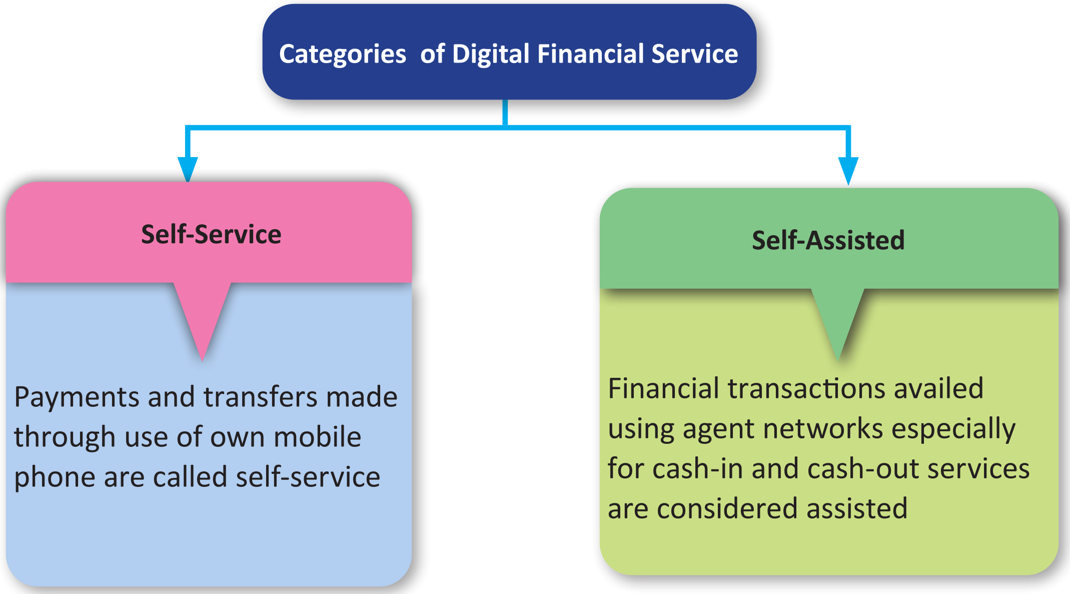

Figure 11.5 Digital financial services

Digital finance is services delivered through mobile phones, personal computers, internet or cards linked to a reliable digital payment system that connect individuals and businesses to a digitized national payments infrastructure, enabling seamless transactions across all parties.

Digital finance (fintech) has advantages in financial inclusion in light of its characteristics such as sharing, convenience, low cost and easy access. Digital financial inclusion aims at harnessing digital technologies to improve financial inclusion and has drawn increasing attention of many countries. It enables the unbanked masses to convert their physical cash into digital or electronic money.

Learning Activity 11.3

1. Explore and write down the different digital financial services available in Bhutan.
2. "Digital Financial Services aims at harnessing digital technologies to improve financial inclusion that enables seamless transactions across all parties". List some of the advantages and disadvantages of using the services.

11.5 Inflation

Inflation refers to a sustained increase in the general price level of goods and services over a period of time in an economy. It decreases the purchasing power of money and increases the cost of living. The excessive demand for goods and services and the increase in the cost of production are the two main causes of inflation. Additionally, increase in the volume of money in circulation also leads to inflation.

Types of Inflation

Inflation is categorised into different types based on the degree of increase in price, time of occurrence and its causes. Depending on the degree of rise in the price, inflation can be categorized into four types.

i. Creeping Inflation

When the general price in an economy rises at a very slow rate, say between 1 to 3 percent per annum, it is termed as creeping inflation. It is also known as mild inflation or low inflation.

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ii. Walking Inflation

If prices rise at a faster rate than creeping, say more than 3 percent but less than 10 percent per annum, it is termed as walking inflation.

iii. Running Inflation

When prices increase between 10 to 20 percent per annum. It is known as running inflation.

iv. Galloping Inflation or Hyperinflation

A situation when prices rise at an exceptionally high rate, say above 20 percent per annum, it is called galloping inflation.

Learning Activity 11.4

Find out the current inflation rate of Bhutan and answer the following questions.

1. Which category does Bhutan fall?
2. Discuss the impact of the inflation on
   - i) consumers
   - ii) producers
   - iii) economy

Review Questions

1. Differentiate between banking and non- banking financial institutions.
2. State the main functions of the following institutions:
   i) Bank of Bhutan Ltd.
   ii) Royal Insurance Corporation of Bhutan Ltd.
   iii) National Pension and Provident Fund
3. RMA is also called as ‘the lender of last resort’. Why?
4. What are the causes of inflation in Bhutan?

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Assessments

Assessment Matrix

Broad assessment based on Knowledge, Skills and Values and Attitudes (KSA)

Assessment type	Formative assessment			Continuous Summative Assessment			Summative Assessment	
Domains	Knowledge	Economic Skills	Values & Attitude	Knowledge	Economic Skills	Values & Attitude	KSA Term I	KSA Term II
Techniques	Debate, Quiz Question answer sessions	Field trip, case analysis	group work, field trip, case analysis, peer interactions	Class Test	Field trip and Siminar presentation	Observation	Exams	Exams
Assessment tools	Checklist & Rating scale	Rating scale & anecdotal notes	Checklist & anecdotal notes	Paper-pencil test	Rubrics and check list	Rating scale & rubrics	Pa-per-pencil test	Paper-pencil test
Frequency	Maintain Check-list & anecdotal records for class-room assess-ment	Maintain Rating scale & anecdotal records for classroom assessment	Maintain Checklist & anecdotal records for classroom assess-ment	Chapter-end test for every chapter	One Project –assessed at every stages	One seminar in each term	Once in a term	Once in a term
Weighting				T1 = 2.5 T 2= 2.5	T1 = 5 T 2= 5	T1 = 2.5 T 2= 2.5	T1 = 30	T2= 50

Weighting and period allocation

Chapters	Weighting (%)	Time Period Allocation (min)
Chapter 1- Introduction to Economics	4	144
Chapter 2- Scarcity and Choice	8	288
Chapter 3- Economic Resources and Production	8	288
Chapter 4- Economic and Non-economic Activities	11	396
Chapter 5- Demand and Law of Demand	13	468
Chapter 6- Supply and Law of Supply	15	540
Chapter 7- Economic System	7	252
Chapter 8- Money	7	252
Chapter 9- Market	7	252
Chapter 10- Trade	10	360
Chapter 11- Financial Institutions	10	360
	100%	3600

Sample rating scale for assessment of debate

Class: Criteria → Name ↓	All arguments were clearly tied to an idea (premise) and organized in a tight, logical fashion	The presenter clearly understood the topic in depth and presented the information forcefully and convincingly	All information presented in the debate was clear, accurate and thorough	Every major point was well supported with several relevant facts, statistics and/or examples	All counter-arguments were accurate, relevant and strong	Used graphics that explained and reinforced text and presentation	Presentation finished within allotted time and was well-paced throughout	All statements, body language, and responses were respectful and were in appropriate language	Teacher's Comments
Tshering									
Sonam									

Grading scale:

- Outstanding =A
- Admirable= B
- Average = C
- Inadequate = D

Sample observation check list for assessment of field trip

Key: ✓ Yes ✗ No Class: Criteria → Name ↓	dressed in a way to stay comfortable during the entire field trip	demonstrated expected behavior during the field trip without a reminder.	listened to all of the lesson and helped to create a good learning environment	respected the time and expertise of the presenter	listened attentively and wrote all the points.	asked relevant questions and listened to the responses.	followed all the safety directions without needing a reminder.	Teacher's Comments
Tshering								
Sonam								

Sample rubric for assessment of project work

Name:.......................... Roll no:.................... Class/sec:......................

Criteria	Score				Total Score(28)
	4	3	2	1	
Problem and hypothesis	Problem is new, meaningful and well researched. Hypothesis is clearly stated	Problem is not new but meaningful. Hypothesis is clearly stated.	Problem is stated but not new and so meaningful. Hypothesis is not clearly stated.	Problem is not stated and Hypothesis is unclear.	
Background research on the hypothesis	Research is thorough and specific. All the ideas are clearly explained.	Research is thorough but not specific. Most ideas are explained.	Research is not thorough and not specific. Few ideas are explained.	Research not thorough and ideas are not explained.	
Methodology	Procedure and plans are detailed and sequential. All materials are listed. Ethical issues have been addressed.	Procedure and plans are detailed but not sequential. Most materials are listed. Ethical issues have been addressed.	Procedure and plans not detailed and not sequential. Few materials are listed. Few ethical issues have been addressed.	A few steps of procedure are listed and no concrete plans evident. No materials are listed. Ethical issues were not addressed.	
Investigation/ Data collection	Variables have been identified and explained. Sample size is appropriate and explained. Data collected from appropriate number of sources.	Variables have been identified but not explained. Sample size is appropriate. Data collected from appropriate number of sources.	Variables have somewhat been identified. Sample size is not appropriate. Data collected from reasonable number of sources.	Missing two or more of the variables. Sample size is not considered. Data collected from limited number of sources.	
Analysis	Conclusion is supported by the data. Explanation is made for how or why the hypothesis was supported or rejected. Reflection of what was learned and how it could be made better is made.	Conclusions are supported by the data. Not enough explanation is made for how or why the hypothesis was supported or rejected. Reflection of what was learned and how it could be made better is made.	Conclusions are not supported by enough data. Not enough explanation is made for hypothesis Reflection is not clear.	Conclusions are not supported by data. Not enough explanation is made for the hypothesis Reflection is not stated.	
Format and editing	Correct format followed throughout. Report is free of errors in grammar, spelling or punctuation.	Only one aspect of format is incorrectly done. Report contains a few errors in grammar, spelling, and punctuation.	Only two aspects of format are incorrectly done. Report contains some errors in grammar, spelling, punctuation	Three or more aspects of format are missing or incorrect. Report contains many errors in grammar, spelling, and punctuation.	
Bibliography	Five or more references are cited in APA format and referenced throughout the paper and presentation.	Three or four references are cited in APA format and referenced throughout the paper and presentation.	One or two references are cited and referenced throughout the paper and presentation.	No references made.	

(Name & signature of Subject Teacher)

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Sample anecdotal notes for assessment of group work

Date: Class: Lesson Topic:

Name of student:		Observation/comments
1	Contribution	
2	Skill input	
3	Responsibility	
4	Respect for other	
5	Cooperation and collaboration	

Question pattern for term examinations

1. Objective type and restricted response items: (50 Marks-compulsory questions)

    i. MCQ :20 Marks
    ii. True-False :5 Marks
    iii. Matching :5 Marks
    iv. Completion :5 Marks

    v. Restricted response : 15 Marks

2. Extended response items : (50 Marks-Answer any five questions)

    Extended response : 50 Marks

Total Marks :100 Marks

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