

ECONOMICS

Class X



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Foreword

Economics is the science of scarce resources and how to use them efficiently. Everyone, in any economy, faces a problem of scarcity. This economic problem asserts the bitter truth that the available resources are insufficient to satisfy all human wants and needs. Understanding this economic problem, which is central to Economics, allows people to find the most efficient way to allocate resources that are always in scarcity.

The new economics curriculum has been developed imbibing components of 21st century skills and transversal competencies complemented with competency-base assessment system to ensure effective teaching-learning process. The curriculum is intended to help our learners acquire economic concepts, principles, skills, values and attitudes that would nurture them to be competent in the fast changing economic scenario and explore the opportunities that lie ahead.

Rapid GDP growth almost always comes with unsustainable economic, environmental and socio-cultural costs. In view of this, the curriculum takes into consideration the values and principles of an alternative development philosophy: Gross National Happiness (GNH) which aims to strike a fine balance between the spiritual and the material wellbeing.

I would like to commend the good work done by our colleagues at the Royal Education Council and other individuals who relentlessly contributed towards development of this curriculum. It is my humble aspiration that our learners reap the benefits of acquiring much required economic knowledge, skills, values and attitudes.

Tashi Delek!



Kinga Dakpa
Director

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CHAPTER 1

Labour Market Equilibrium and Wage Determination

Learning Objectives

- *Discuss the term labour*
- *Explain types of labour*
- *Demonstrate sense of dignity of labour*
- *Write the meaning of wages with examples*
- *Explain the factors affecting demand for and supply of labour*
- *Calculate marginal productivity of labour*
- *Illustrate and explain determination of wage rate.*

1.0 Introduction

Labour markets or job markets function through the interaction of workers and employers. People work either in government agencies, private firms or are self employed to earn their living. Using labour with other factors of production, firms produce varieties of goods and services which are sold to consumers. Firms pay wages to workers based on the nature of work, skills and productivity.

This chapter discusses about labour and determination of wages.

1.1 Labour

The term 'labour' includes efforts of any kind- manual or mental, skilled or unskilled, scientific or artistic put in by human beings in the production of goods and services. Labour is one of the active factors in the production process.

While labour is the service provided by a worker, the person who works or provides the services is called labourer. For instance, a doctor is a labourer while the service provided by a doctor is labour.

1.2 Types of Labour

The activities carried out by people can be broadly categorised into four types based on skills and knowledge.

a. Un-skilled labour

Labour that requires no training or professional skills can be termed as un-skilled labour. For example, a farmer working in a field, a sweeper cleaning the house, and a porter carrying luggage come under the category of un-skilled labour.



Figure 1.1 Un-skilled labours

b. Semi-skilled labour

Labour that requires some forms of training and experience in doing a particular job is termed as semi-skilled labour. A goldsmith making ornaments and weavers weaving clothes are some examples of semi-skilled labour.



Figure 1.2 Semi-skilled labours

c. Skilled labour

Labour that requires special training and experience to do a job is considered as a skilled labour. The work of carpenter, an electrician, and a plumber come under skilled labour category.



Figure 1.3 Skilled labours

d. Professional labour

Labour that requires advanced study and special training is called a professional labour. For example, doctor treating a patient, a teacher teaching students, an architect designing a building, or a pilot flying an aircraft are examples of a professional labour.



Figure 1.4 Professional labours

1.3 Wage

Wage is a payment made by an employer to a worker as a reward for the services rendered in the production process. Wage is an expense for the employer, and an income for the worker. A wage can be received in the form of cash or kind.

1.4 Demand for Labour

Demand for labour refers to the number of workers an employer is willing and able to hire at a given wage rate at the given period of time.

1.5 Factors Affecting Demand for Labour

The demand for labour in a firm is determined by the following factors:

a. Wage rate

The most important determinant of demand for labour is the wage rate. With a fall in the wage rate, the demand for labour increases and a rise in the wage rate decreases the demand for labour. Thus, there is an inverse relationship between the wage rate and demand for the labour. This can be explained with the help of demand schedule illustrated in Table 1.1.

Table 1.1 Demand schedule

Wage rate (Nu per day)	Quantity of labour demanded
600	1
500	2
400	3
300	4
200	5

The demand for labour also depends upon its marginal revenue productivity. The marginal revenue product of labour (MRP) is the change in revenue that results from employing an additional unit of labour, holding all other inputs constant. The marginal revenue product of a worker is equal to the product of the marginal product of labour (MPL) and the marginal revenue (MR) of output, given by $MR \times MPL = MRP$.

The profit maximizing firm will hire workers up to the point where the marginal revenue product is equal to the wage rate, because it is not profitable for a firm to pay its workers more than what it contributes.

b. Demand for goods and services

Demand for labour depends on the demand for goods and services it produces. The greater the consumers' demand for the goods and services, the greater the producers' demand for the labour required in producing those goods and services. For example, during an economic boom, to meet the increasing demand, companies expand the size of the plants resulting in additional employment of labour.

The demand for labour is not demanded on its own, but for the production of goods and services demanded by the consumers. Hence, the demand for labour is known as derived demand.

c. Productivity of labour

Demand for labour depends on the productivity of labour. With an increase in productivity of labour, the demand for labour increases, while demand for it falls when the productivity decreases. Demand for efficient and skilled workers will be higher as they can contribute more to the production. The productivity of labour can be enhanced through trainings, seminars and workshops.

1.6 Supply of Labour

Supply of labour refers to the number of people who are willing and able to work at the prevailing wage rate during a given period of time.

1.7 Factors Affecting the Supply of Labour

The supply of labour in the market depends on the following factors:

a. Wage rate

The most important determinant of the supply of labour is the wage rate. With a fall in the wage rate, the supply of labour decreases and a rise in the wage rate increases the supply of labour. There is a positive relationship between the wage rate and supply of labour. This can be explained with the help of supply schedule illustrated in Table 1.3.

Table 1.2 Supply schedule

Wage rate (Nu per day)	Quantity supplied of labour
500	1
600	2
700	3
800	4
900	5

b. Facilities and working environment

A firm with good working conditions, friendly colleagues, good management and better facilities attracts workers to join the workforce. Consequently, the supply of labour in the firm tends to increase. On the other hand, if a firm is plagued by hostile colleagues, unprofessional supervisors, and unfriendly working environment with poor facilities, new workers may not like to join the workforce and even the existing workers may leave such firm and look for a job in better firms. In such situation, the supply of labour tends to decrease.

Learning Activity 1.1: Illustrating demand and supply curves, and calculating MRP

Instructions:

1. Derive the demand curve of labour using Table 1.1 and then explain it.
2. Draw the supply curve using Table 1.2 and explain the relationship between wage rate and supply of labour.
3. Let us consider the weekly production of mineral water in response to change in number of workers.

Each bottle of mineral water sells for Nu 20.

Calculate MP and MRP, and complete the Table 1.3.

Table 1.3 Marginal revenue product

No. of Workers	Total Production	Marginal Product (MP)	Marginal Revenue Product (MRP)
0	0		
1	200		
2	283		
3	346		
4	400		
5	450		
6	490		
7	529		
8	566		
9	596		
10	620		

Answer the following questions

- i) How many workers will the firm employ at the wage rate of Nu 1000 per week? Why?
- ii) If the wage rate falls to Nu 600 per week, how many more workers will be employed by the firm?
- iii) If you are the employer of that firm, how can you increase the productivity of your workers?
- iv) Explore some of the opportunities provided by different agencies for improving the productivity of labour in Bhutan.

1.8 Determination of Wage Rate

In labour market, the wage rate is determined by the market forces of demand and supply of labour. This can be illustrated by the intersection of demand and supply curves of labour as shown in Figure 1.5

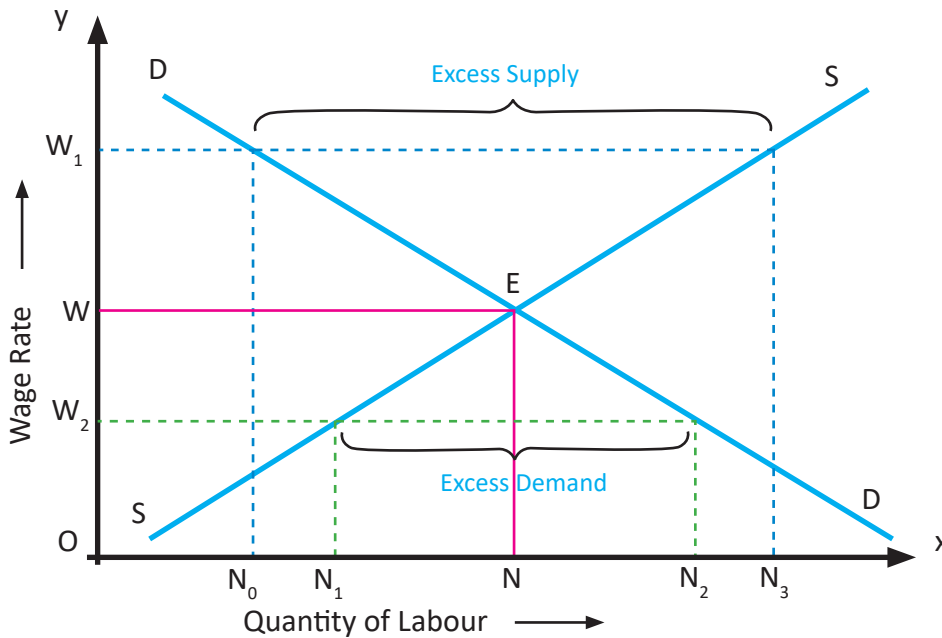


Figure 1.5 Determination of wage rate

In Figure 1.5, X-axis represents the quantity of labour and Y-axis represents the wage rate. DD is demand curve for labour and SS is supply curve of labour.

Demand and supply curves intersect at point E, where the equilibrium wage is OW and equilibrium quantity of labour is ON. At this point of intersection, the quantity demanded for labour is equal to the quantity of labour supplied. Hence point 'E' is known as equilibrium point. Any deviation from the equilibrium point 'E', results in disequilibrium in the demand and supply of labour. For instance, any point above 'E', say OW₁, indicates excess supply of labour and this situation gradually lowers the wage rate. On the other hand, any point below 'E', say OW₂, indicates excess demand, and this situation gradually increases the wage rate.

Learning Activity 1.2: Analysing the effect of labour market situation on the wage rate**Instructions:**

1. Using the information from Table 1.4, answer the questions that follow.
2. Identify the market situation by comparing demand for labour and supply of labour to infer the effect on the wage rate and complete the table.

Table 1.4 Effect on wage rate

Wage rate (Nu)	Quantity of labour demanded	Quantity of labour supplied	Market situation (Excess demand, Excess supply or equilibrium)	Effect on wage rate (Increase, Decrease or Constant)
250	600	200		
350	500	300		
450	400	400		
550	300	500		
650	200	600		

Answer the following questions

- i) What do you understand by the term 'market situation'?
- ii) Describe the following terms:
 - a. Equilibrium wage rate
 - b. Equilibrium quantity
 - c. Excess supply of labour
 - d. Excess demand for labour
- iii) What is your perception on the labour market situation in Bhutan? Justify.
- iv) Identify any issue related to labour market in Bhutan and suggest ways to address it.

1.9 Dignity of Labour

Dignity of labour implies that all types of job, manual or intellectual, are respectable. It means that all occupations are equally important and should not be considered superior or inferior to others.



Figure 1.6 Dignity of labour

Learning Activity 1.3: Exploring the essence of dignity of labour**Instructions:**

1. Reflect on the different kinds of job done by different individuals in your school. Record all kinds of job with the help of Table 1.5
2. Explore the details about each job and fill it up in Table 1.5.
3. Share the work with the class and discuss about it.

Table 1.5 Importance of dignity of labour

List of job done by people in the school	Wage rate	Nature of work	Importance of work to the school	Your perception on the job

Answer the following questions

- i) Given the opportunity which job would you prefer do ? Why?
- ii) How important is the role of every job to function the school smoothly?
- iii) What sort of repercussions may be there if people are inappropriately differentiated based on the works they do?
- iv) Through this activity, what did you realize about valuaing the dignity of work?

Review Questions

1. Match the items in Column A with correct answer given in Column B.

Column A**Column B**

- | | |
|------------------------|--|
| 1. Unskilled labour | a. An electrician wiring a house. |
| 2. Skilled labour | b. A software engineer designing a web page. |
| 3. Semi-skilled labour | c. A nomad herding cattle. |
| 4. Professional labour | d. Parents reciting prayers. |
| | e. A mason constructing a wall. |
2. What are some key characteristics of skilled labour?
3. How does level of education help in increasing the productivity of labour?
4. In a country, if demand and supply of labour are equal, what does it say about employment situation?
5. Explain the following
- Demand schedule for labour
 - Supply schedule of labour
6. With the help of suitable examples, explain the factors affecting demand for labour (other than the ones discussed above).

CHAPTER

2

Factor Income

Learning Objectives

- *Explain rent*
- *Identify factors affecting rent in Bhutan*
- *Define investment*
- *Define saving*
- *Differentiate types of savings*
- *Analyse reasons for saving*
- *Explain gross interest and net interest*
- *Analyse reasons for paying interest*
- *Explain simple and compound interest*
- *Illustrate determination of interest rate*
- *Explain profit*
- *Explain the concept of cost and revenue with numerical examples*
- *Explain profit as a driving force for economic activities*

2.0 Introduction

The factors of production consisting of land, labour, capital and entrepreneur are provided by the household sector to firms for producing goods and services. In return, these factors are rewarded in the form of rent, wages, interest and profit respectively. These are called as factor incomes. All these incomes together contribute to the national income that is important for provision of goods and services to people.

Wage as a factor income is discussed in Chapter 1, and the other factor incomes are discussed in this chapter.

2.1 Rent

Rent commonly refers to any payment made for hiring of durable goods like furniture, land, car, house and bicycle. In economics, rent is generalised and extended to all factors having inelastic supply. The supply that remains almost fixed irrespective of change in price and other determinants is the inelastic supply.

2.2 Factors Affecting Rent

a. Demand and Supply of the property

Demand and supply are the main factors that determine rent. Availability of more houses and inadequate demand for it, lead to decrease in the rental prices. On the contrary, if the demand for houses is more than the supply, the rent tends to increase.

b. Location

Location of rental property is also a determinant of rent. Proximity of land to an educational institute, a factory, a motor road, a town, a hospital, a shopping mall or a restaurant has higher rental prices.

c. Facilities

Facilities of a property are also the factors that determine rent. Houses that are well furnished with modern amenities earn higher rent than the houses with minimum modern facilities.

Learning Activity 2.1: Analysing determinants of house rent

Instructions:

1. Study Figure 2.1 on determinants of house rent.
2. Discuss in groups to explain the importance of each factor in determining the rent of a house.

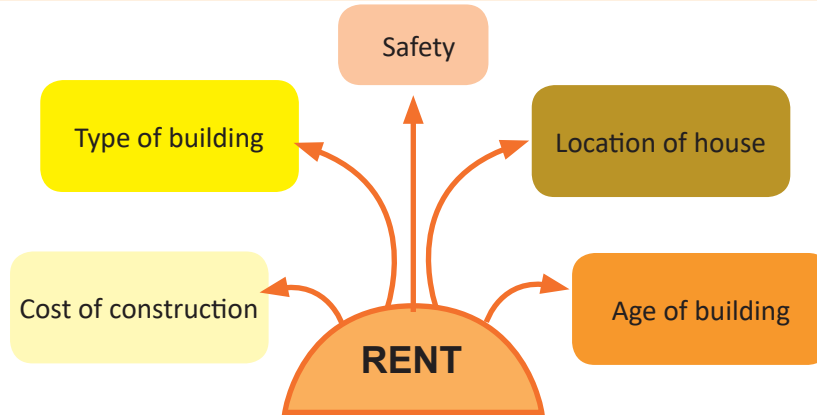


Figure 2.1 Determinants of house rent

Answer the following questions

- i) Discuss any three important factors that a renter would consider in fixing the rent of a house.
- ii) There are two houses available for rent. The first house has sociable and friendly neighbours, but higher rent. The second house has unfriendly neighbours, but lower rent. In which house will you prefer to live? Justify your answer.
- iii) What measures should the government take to control the house rent in urban Bhutan?

2.3 Investment

Investment refers to the creation of new capital goods like machinery, equipment, buildings and factories in an economy for future returns. In addition, expenses on the purchase of shares and bonds are investment. Expenditure on education and health by government, parents and individuals is investment for human capital development.

2.4 Saving

Saving takes place when a household, business firm or a government decides not to spend the income on current consumption of goods and services. It is the difference between their disposable income and the actual consumption expenditure in a given period of time. Disposable income is the amount of money that is available to invest,

save or spend after the payment of taxes and other social security schemes.

The amount of money that people save depends on their level of income and the rate of interest offered by the banks. Higher the level of income and interest rate, higher is the level of saving.

a. Why save?

People save for the following suggested reasons:

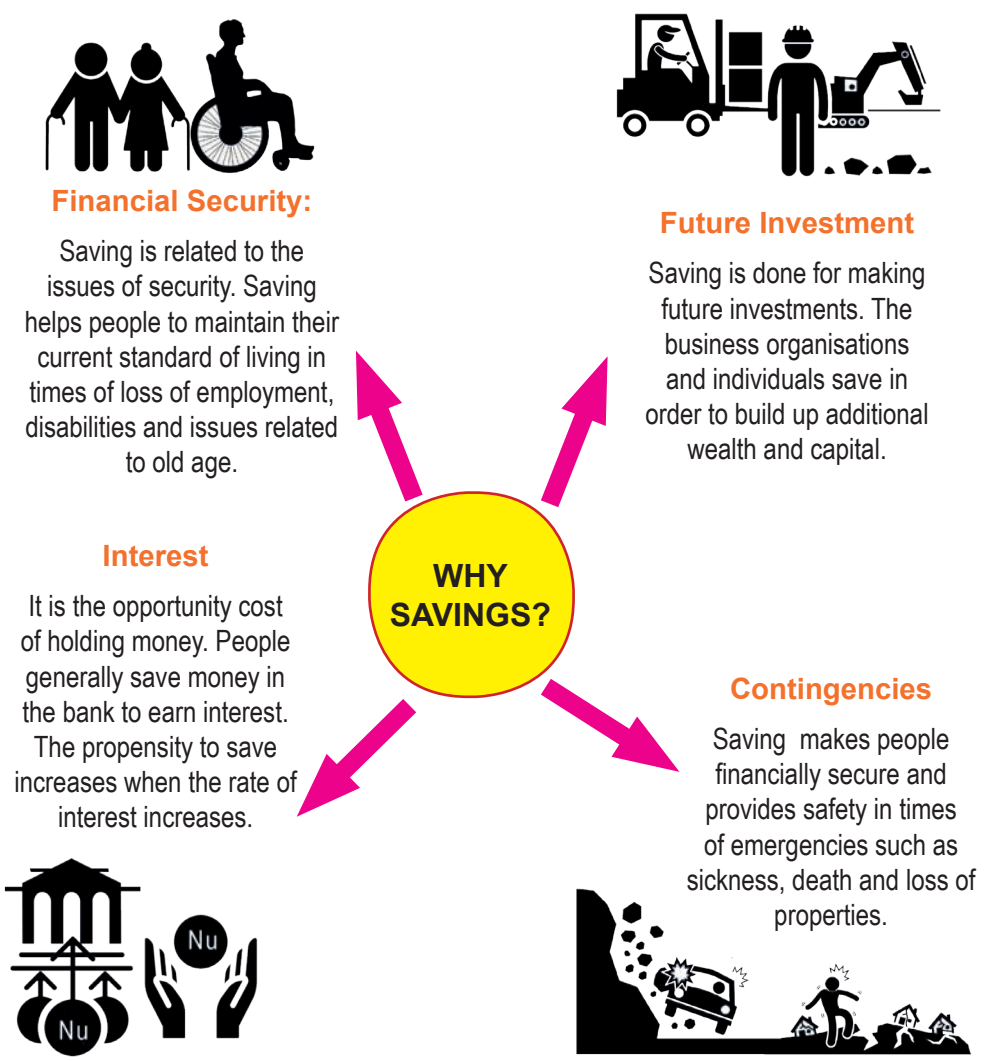


Figure 2.2 Reasons for saving

b. Types of savings

In order to know about what savings is, it is important to know the difference between hoarding and savings. Hoarding is the unspent income that does not earn any interest. Storing money in lockers and wallets is an example of hoarding. Savings is the unspent income which earns interest. Depositing money in the bank is an example of savings.

A household, business firm or government can save money with the banks. To facilitate savings, the banking institutions such as Bank of Bhutan, Bhutan National Bank, T Bank, Bhutan Development Bank and Druk PNB allow their customers to open different types of savings account. Some of the common savings accounts are current deposit accounts, savings deposit accounts, recurring deposit accounts and fixed deposit accounts.

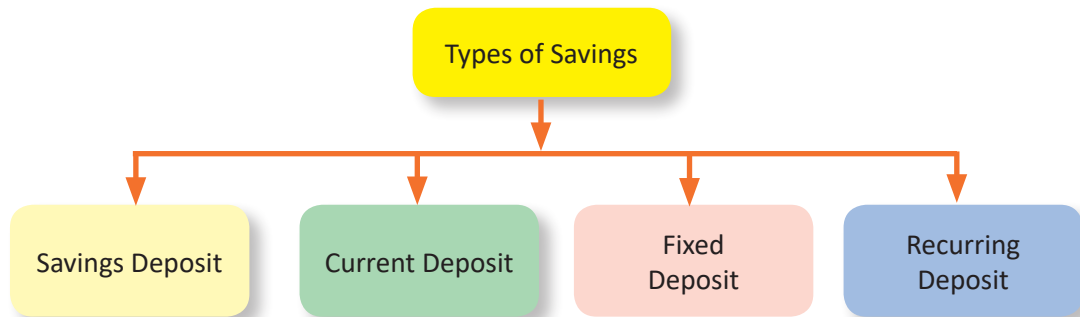


Figure 2.3 Types of savings

i. Savings Deposit Account

This is the simplest form of deposit that has no specified deposit term and can be withdrawn at any time. The banks offer a nominal interest on such deposits. This type of savings promotes thrift and saving habits of people.

ii. Current Deposit Account

This account is normally held by firms, government agencies and business persons. There is no restriction on the amount of withdrawal by the account holder. Such deposits do not earn any interest and have no definite deposit term. The account holder can avail bank overdraft facility to make withdrawals over and above the balance amount at times of shortage of funds.

iii. Fixed Deposit Account

Customers make deposits of a lump-sum amount for a specific period of time. At the end of the specified period, the depositors may renew the deposits or withdraw the money along with the interest. The interest on such deposits is higher than other types of deposits. The rate of interest varies with the period of deposits, which means longer the period of deposits, higher the rate of interest.

iv. Recurring Deposits Account

It is also known as cumulative time deposits. In recurring deposits, the customers deposit in regular installments for a specified time period. The accumulated amount along with interest is paid to the customers on maturity. The rate of interest on this deposit is higher than the savings deposits but lower than the fixed deposits.

Know more

1. Children who have not reached the age of 18 years can avail Minor's Savings Deposit Account.
2. An account is treated as dormant account in case there are no transactions for more than 1 year. It will be automatically closed if the account is not active.

Learning Activity 2.2: Exploring savings schemes of different banks

Instructions

1. Work in groups to find out the types of savings schemes offered by different banks in Bhutan. Use respective websites to collect the following information.
2. Table 2.1 Finding types of saving Scheme

Name of bank	Type of scheme	Nature/ Period of deposits	Interest rate	Eligibility	Documents required

Answer the following questions

- i) Which scheme of savings do you prefer? Why?
- ii) Which scheme of savings would you suggest to your parents? Why?
- iii) Saving habits of Bhutanese are generally low. Explain the plausible reasons for it.
- iv) With the help of data provided in table 2.1 make a descriptive analysis on interest rates for saving schemes offered by different banks in Bhutan using a bar graph.
- v) Why do banks need to collect customer information?

Know more

While saving money is a good decision and a virtuous act, there are some implications related to it.

When people save more, the demand for goods and services tend to decrease. The fall in the demand reduces the profit of producers, resulting in decrease in production, and gradually to the closure of businesses. Such a situation creates unemployment and other socio-economic problems. Consequently, revenue generation of the country is affected.

2.5 Interest

Interest is a reward for capital that is gained by the lender for lending capital. When an individual deposits money in the bank, the bank pays interest to compensate for the deposit. The whole of the payment made to lender for lending capital is called gross interest.

Banks take risk and also incur some management costs in the process of its functioning. These costs are deducted from the gross interest to arrive at net interest, which is also known as pure interest.

$$\text{Net Interest} = \text{Gross Interest} - (\text{Expenses on risk} + \text{Expenses on management})$$

a. Why pay interest?

Borrowers pay interest to lenders for the following reasons:

- i. Lending involves abstinence (postponement) from current consumption. In order to compensate the abstinence suffered by the lenders, the borrowers pay interest.
- ii. Lending money is a risky business. There is always a chance that the borrower may not pay back. To compensate the risk taken by the lenders, they are paid interest.
- iii. Money loses its value over time due to increase in the prices of goods and services. Thus, lenders want some payments to compensate for this loss of value of money.

c. Simple Interest and Compound Interest

The term ‘interest’ used in ordinary sense is the simple interest, which is based on the principal amount of loan or deposit. The compound interest is based on the principal amount and the interest that accumulates on it periodically. In other words, compound interest is ‘interest on interest’.

Learning Activity 2.3: Calculating simple interest and compound interest

Instructions

1. Use the information in Table 2.2 to answer the following questions.

Table 2.2 Calculating simple interest and compound interest

Principal Amount (P)	Rate of Interest (R)	Time (T)	Simple Interest (SI) $SI = A - P$, Where amount $A = P \left[1 + \frac{RT}{100} \right]$	Compound Interest (CI) $CI = A - P$, Where amount $A = P \left[1 + \frac{R}{100} \right]^{NT}$
Nu 1000	10 %	1 Year		
Nu 1000	10 %	2 Years		
Nu 1000	10 %	3 Years		

Answer the following questions

- i) Calculate simple and compound interests for the data provided in Table 2.1.
- ii) Which type of interest value is greater: simple interest or compound interest? Why are the two values different?
- iii) If you are one of the money lenders in the region, which type of interest would be more beneficial to you? Explain.
- iv) If you are a borrower, how would the change of interest rate affect you?
- v) What should you do to be a responsible borrower?
- vi) How would non repayment of loan affect the economy of the country?

d. Determination of Interest

The rate of interest is determined by demand for and supply of capital. The demand for capital comprises investments and the supply of capital consists of savings.

i. Demand for Capital: Investment

Investment depends on the rate of interest on borrowing. Lower the interest on borrowing, the higher the demand for capital that leads to more investment. Therefore, the amount of investment made is inversely related to interest rate.

ii. Supply of Capital: Savings

Savings depends on the rate of interest on deposits. The higher the rate of interest, the higher is the amount of savings that leads to increase in supply of capital. Therefore, the relationship between savings and interest is positive.

Interest rate is determined by the forces of demand for and supply of capital. In Figure 2.4, the equilibrium rate of interest and equilibrium level of capital is shown by the intersection of demand and supply curves at point E which indicates saving is equal to investment . If the supply of capital is more than demand for capital, it leads to excess supply of capital. If the demand for capital is more than the supply of capital, it leads to excess demand for capital.

As shown in Figure 2.4, if the interest rate increases from OI to OI_1 , the demand for capital (investment) decreases from ON to ON_1 , while the supply of capital (saving) increases from ON to ON_2 . This creates a situation of excess supply in which saving exceeds investment. As a result, financial institutions, would lower the interest from OI_1 to the equilibrium interest OI .

On the other hand, if the interest rate decreases from equilibrium OI to OI_2 , demand for capital (investment) rises from ON to ON_3 and the supply of capital (saving) falls from ON to ON_1 . This situation of excess demand for capital increases interest rate from OI_2 to OI .

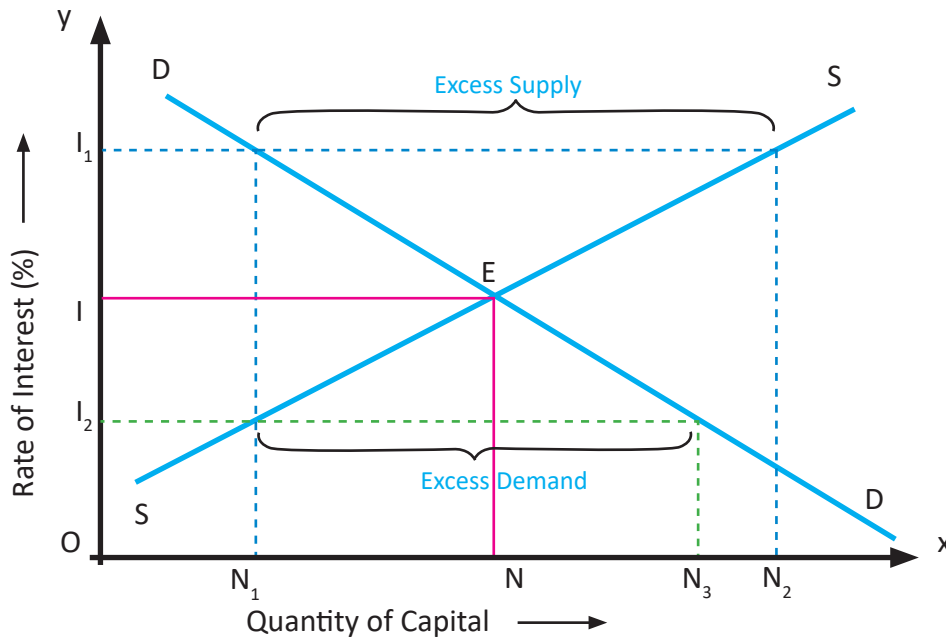


Figure 2.4 Determination of interest rate

Learning Activity 2.4: Demonstrating the equilibrium interest rate**Instructions:**

1. Study the information in Table 2.2.
2. Draw a graph to show the equilibrium interest rate and equilibrium quantity of capital.

Table 2.2 Equilibrium interest rate

Rate of interest (%)	Demand for capital (Nu in million)	Supply of capital (Nu in million)
8	50	50

Answer the following questions

- i) How would the equilibrium interest rate change when there is increase in the volume of savings by different sectors of the economy? Explain it with the help of a graph.
- ii) Explain the effect of decrease in investment on equilibrium interest rate and equilibrium quantity of capital in the economy.
- iii) What would be the implications on the Bhutanese economy, if there is
 - a) excess demand for capital?
 - b) excess supply of capital?

2.6 Profit

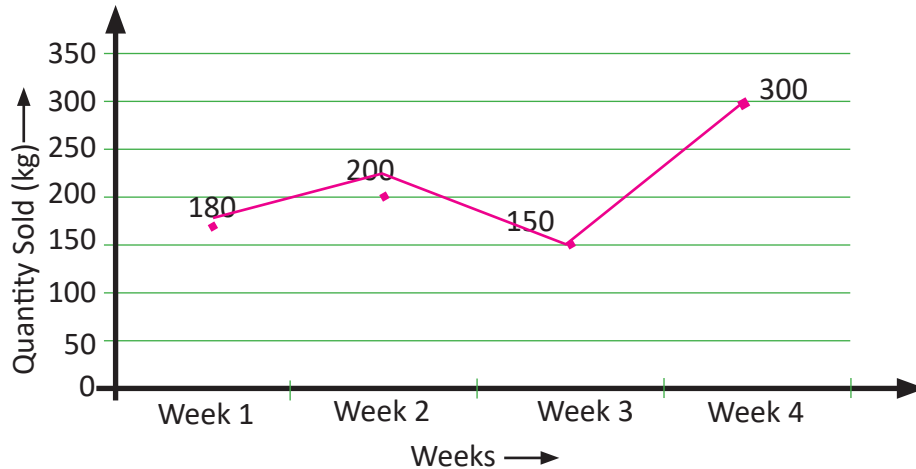
The role of an entrepreneur is to conceptualise a business, take the risk and organise the production along with other factors of production. The effort of an entrepreneur is rewarded in the form of profit.

A firm makes profit when its total revenue from the sale of goods exceeds the total cost of production.

$$\text{Profit} = \text{Total Revenue} - \text{Total Cost}$$

Learning Activity 2.5: Calculating profit**Instructions:**

1. Study Figure 2.5 that shows the fluctuation in potato sales of a farmer during four different weeks.



- 2.

Figure 2.5 Potato sales of a farmer

Answer the following questions

- i) In which week did the farmer sell maximum quantity of potatoes?
- ii) What could be some of the plausible reasons for the decline in sales during Week 3?
- iii) The farmer spent Nu 3500 for the purchase of seeds, Nu 2000 for labour, Nu 1500 for fertilizers and Nu 2000 for transportation. The farmer sold the entire potato produce at the rate of Nu 20 per kilogram. Calculate the profit or loss.

2.7 Profit as a driving force of economic activities

Profit is, primarily, the main motive for carrying out any economic activity in an economy. In the process of production, resources are reallocated in producing the commodities which are on higher demand because more profit can be made by producing such commodities. For instance, if there is rise in the number of tourists

visiting our country, it is likely that entrepreneurs would venture into tourism business.

In the real-life situation, however, profit should not be the only primary motive of any business. A business person should be mindful of integrity and the need to uphold the national, social and cultural values. Figure 2.6 illustrates some of the areas of business ethics.

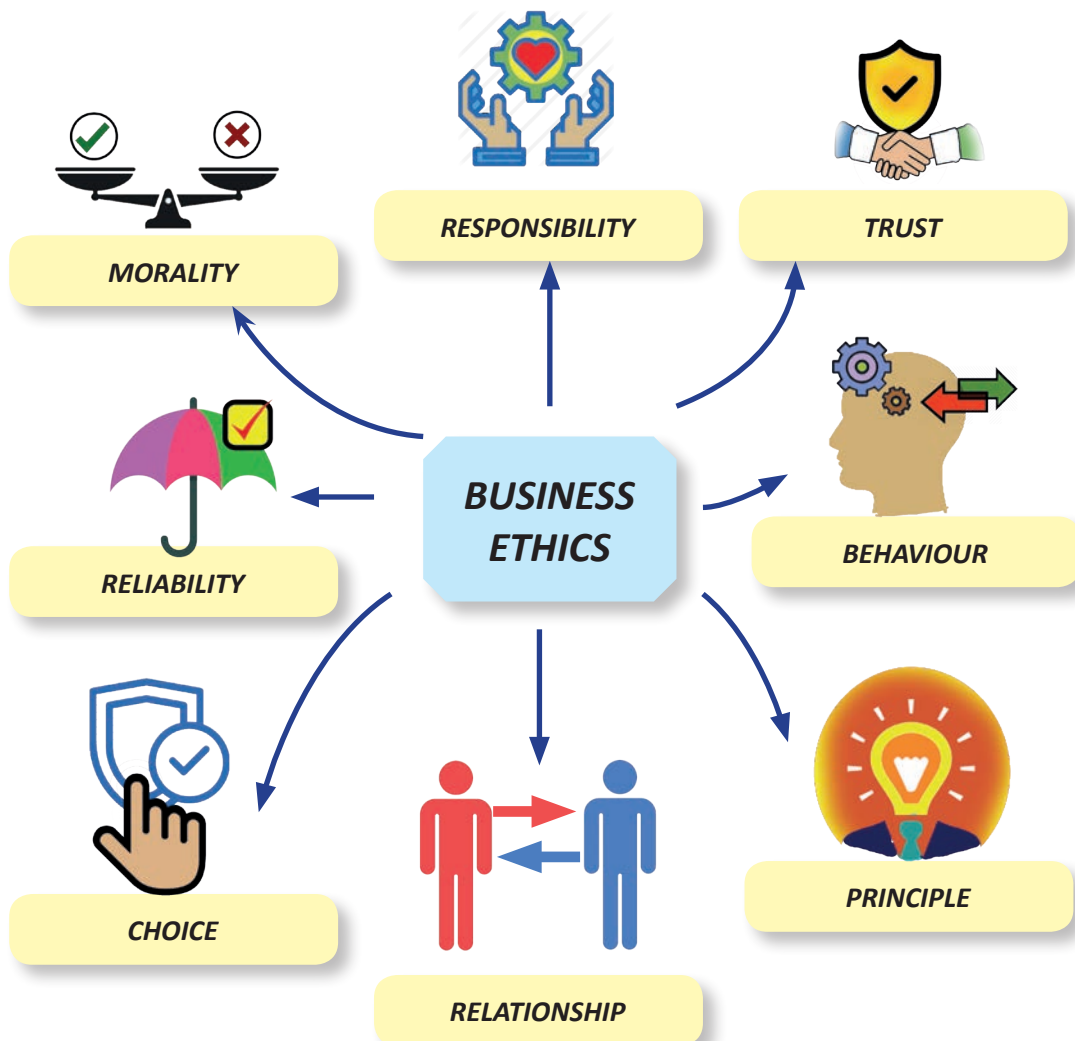


Figure 2.6 Business Ethics

Learning Activity 2.6: Surveying business ethics

Instructions:

1. Plan and prepare a field study in two groups to conduct interview with at least 15 retailers each in your locality.
2. Use the suggested questionnaire provided in the box to guide the interview.

Business Ethics Survey Questionnaire

A. General Information of the respondent

1. Sex:
2. Age:
3. Marital status:
4. Qualification:
5. Dzongkhag:

B. Business Ethics

Sl. no	Particular	Always	Sometimes	Rarely	Never
1	Do you greet your customers when they come to your shop?				
2	Do you check the expiry date of the goods in your shop?				
3	Do you sell the outdated goods to your customers?				
4	Do you dump the expired products of your shop?				
5	Do you charge your customers based on MRP?				
6	Sometimes, some customers forget to take the money changes. Do you give the changes back when the customer comes to collect it later?				
7	Do you produce the true business worth through book of accounts while paying business tax?				
8	Do you refer customers to other shops when goods are not available in your shop?				
9.	For how long have you been doing this business?				
10.	Why did you choose this business?				
11.	What is your approximate annual income? <input type="checkbox"/> Less than Nu 50,000 <input type="checkbox"/> Nu 51,000 – Nu 99,000 <input type="checkbox"/> Above Nu 100,000				

3. Observe research ethics to avoid sensitive issues. Information collected should be for academic purpose only.

Answer the following questions

- i) How does the following influence the business ethics?
 - a) Age
 - b) Sex
 - c) Marital status
 - d) Qualification
- ii) Use bar graph to analyse the information of respondents in terms of
 - a) tax payment.
 - b) Maximum Retail Price.
 - c) sale of expired goods.
- iii) Comment on the business ethics of the local retailers.
- iv) What strategies can be used to raise the business ethics in the community?
- v) How do you relate business ethics with our Bhutanese values of *Tha Dam-tsig Ley Ju-drey*?

Review Questions

8. Pema's monthly salary is Nu 20000. Pema's various expenses include Nu 8,000 as house rent, Nu 1,500 for groceries, Nu 700 as utility payment and Nu 500 for gas. Based on the given information, calculate the amount saved by Pema.
9. What are the types of savings? Differentiate between the types of savings.
10. How can interest rate on loan for rental property determine the rent?
11. List the factors, other than profit, which act as regulating force of economic activities.

CHAPTER

3

The Economy of Bhutan

Learning Objectives

- *Explain the characteristics of Bhutanese economy*
- *Identify the challenges faced by the Bhutanese economy and suggest relevant solutions*
- *Explain the concept of economic diversification*
- *Explain the role of public and private sectors in the economy*
- *Explain the relationship between consumption, saving and investment*
- *Describe the scenario of consumption, saving and investment in the Bhutanese economy*
- *Suggest ways to improve rate of saving and investment in the economy*

3.0 Introduction

Bhutanese economy is a mixed economy with the coexistence of both public and private sectors. The public and private sectors play a vital role in supporting economic growth. However, private sector cannot function on its own. To ensure the growth of private sector, the government frames good policies and provides efficient public goods and services.

Innovation and advanced technology are pre-requisites for modern development. In order to meet the pace of global economic development, there has been a transition in the Bhutanese economy from traditional to modern economy such as shift from the primary sector to manufacturing and service sectors. Despite the economic growth, growing youth unemployment, continued dependence on aid and import are some of the visible challenges in Bhutan.

This chapter discusses some of the features of Bhutanese economy and the roles of public and private sectors in Bhutan.

3.1 Features of Bhutanese Economy

The main features of Bhutanese economy

a. Per capita income

Per capita income is important in measuring the progress of country's growth. The increase in GDP per capita is an indicator of economic growth. The GDP per capita income of our country has been increasing continuously over the years. This is shown in Figure 3.1.

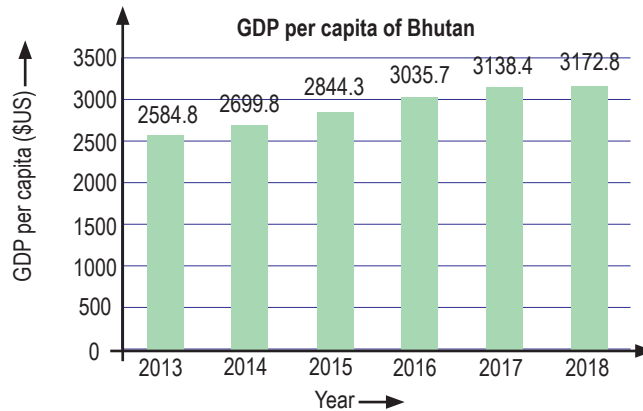


Figure 3.1 Per capita income (Source: trading economics/world bank)

b. Capital Formation

Capital formation refers to creation of more capital goods in the economy. As a component of national income, it measures the economic status of a country. The recent trend of capital formation is given in Figure 3.2. According to National Accounts Statistics (2018), the reason for increase in gross domestic capital formation over the years is attributed to investment in construction, and machinery and equipment.

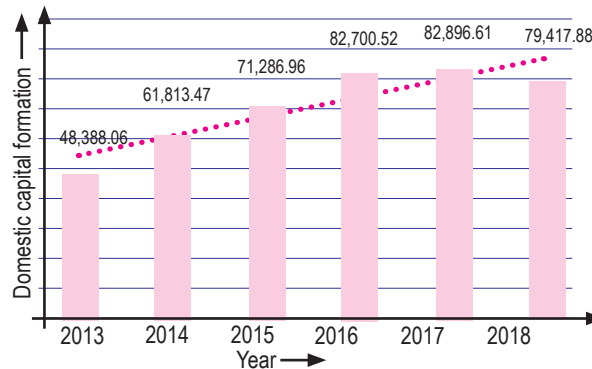


Figure 3.2 Capital formation (Source: Trading economics/world bank)

c. Share of different sectors to GDP

The economic sector of Bhutan consists of primary, secondary and tertiary sectors. The share of primary sector to GDP is less compared to other two sectors. This is shown in Figure 3.3. The tertiary sector remains the major contributor to the country's GDP as indicated in Figure 3.3.

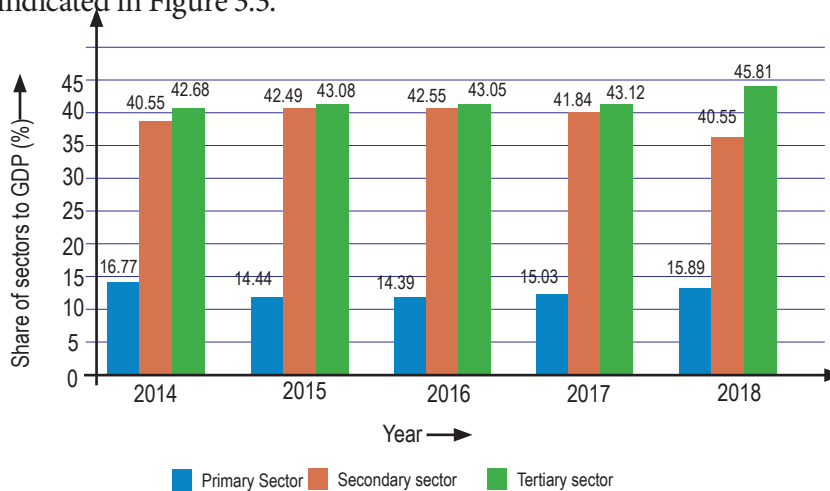


Figure 3.3 Share of economic sector (Source: National Accounts Statistics)

d. Population

With a population of about 7,27,145 (PHCB 2017), Bhutan is one of the least populated countries of the world. The population growth rate between 2005 and 2017 is 1.3 % per annum which is low compared to many other countries. The detail of age and sex distribution of population is given in Table 3.1.

Table 3.1 Age and sex distribution of population

Age Group	Male	Female	Total
0 – 14	95,867	93,550	1,89,417
15 – 24	75,754	67,947	1,43,701
25 – 54	1,64,145	1,42,209	3,06,354
55 – 64	22,877	21,732	44,609
65 and above	21,810	21,254	43,064
Total	3,80,453	3,46,692	727,145

Learning Activity 3.1: Exploring features and challenges of Bhutanese economy

Instructions:

1. Examine the data of GDP per capita, capital formation, population, and share of sectors to GDP for the last five years.
2. Discuss in groups about the challenges of Bhutanese economy.

Answer the following questions

- i) Discuss the features of Bhutanese economy based on the data you have examined.
- ii) Bhutan is featured by several positive indicators of growth and development, yet there are also some challenges associated with it. Write down some of the challenges faced by Bhutanese economy in the current situation.
- iii) Suggest some measures to reduce the above mentioned challenges.

Source: PHCB 2017

3.2 Economic Diversification

Economic diversification is a key element of economic development. It is the process of shifting an economy from a single income source towards multiple sources from a growing range of sectors and market. It is used as a strategy to encourage economic growth and development. Diversifying the economy is important to reduce unemployment and increase productivity.

The performance of the Bhutanese economy is largely dependent on the performance of a few sectors such as hydro power and tourism. Therefore, Cottage and Small Industries (CSI) are identified as one of the key areas of economic diversification, which not only contribute to job creation but also add to the country's economy.

3.3 Public Sector in Bhutan

The public sectors are those sectors that are owned and managed by the government. Some of the general roles of the public sector are as follows:

i. To provide public goods and services

The public sectors invest in the provision of social infrastructures, such as roads, schools, hospitals which promote social welfare.

ii. To minimise regional disparities

The public sectors help to bring socio-economic development in every region which minimises regional disparities.

iii. To achieve the goal of self-reliance

The public sectors encourage production of goods and services within the country to reduce the dependency on other countries.

iv. To earn foreign exchange through exports

Public sectors export goods and services to foreign countries which help to earn foreign currencies. The incomes earned are added to the government's revenue.

3.4 Private Sector in Bhutan

The private sector is considered as the engine of economic growth as it compliments and supplements economic activities of the government. In general, the activities which are more profitable and involve less investment are run by private firms.

Some of the major roles of private sector are:

i. Creation of employment opportunities

Private sectors play an important role in the generation of employment opportunities in the economy. They create job opportunities which help the government to curb the problems of unemployment.

ii. Contribution to the government's revenue

The private sectors also contribute to government's revenue in the form of taxes. With increase in the number of private sectors, the government can raise more revenue to boost the economic growth.

iii. Development of infrastructures

The private sectors help to create better and improved infrastructural facilities in the areas such as education, health and transportation.

3.5 Relationship between Consumption, Saving and Investment

The income earned is used for two purposes, namely consumption and saving. The increase in consumption expenditure leads to decrease in savings, and the decrease in consumption expenditure leads to increase in savings. If the entire income is used for consumption, saving becomes zero. Unless people have savings, investment is not possible. Investment is more when people have enough savings. It is very important that there is a balance between consumption and saving of every household.

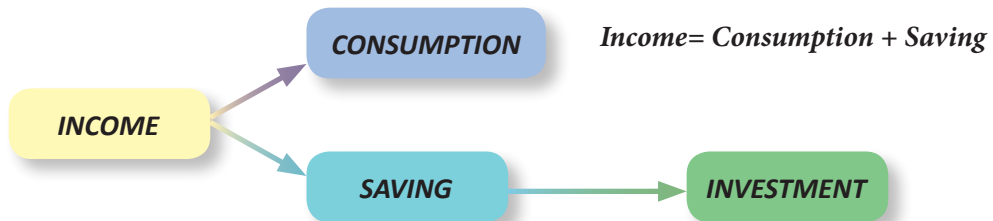


Figure 3.1 Consumption, saving and investment

Learning Activity 3.2: Analysing household consumption expenditure of different dzongkhags.

Instructions:

1. Study Figure 3.2

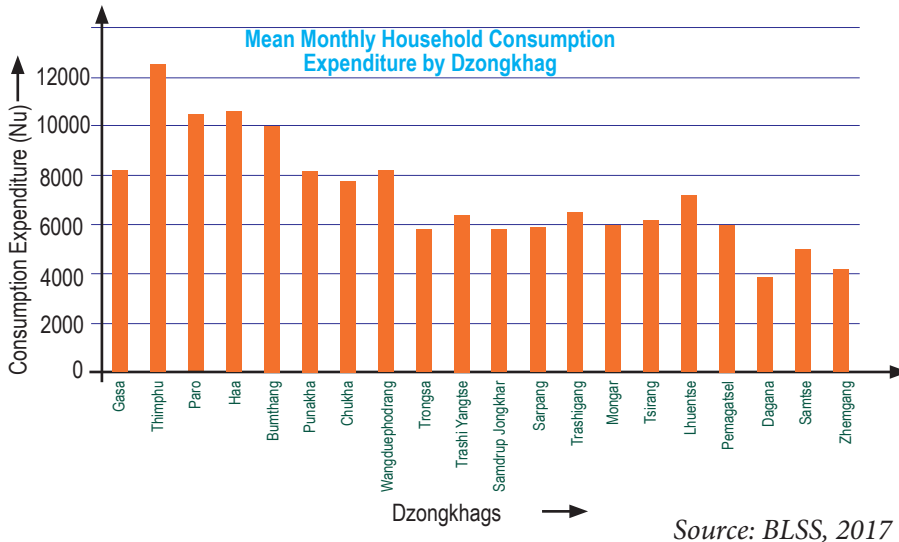


Figure 3.2 Household consumption expenditure

Answer the following questions

- i) Which dzongkhag has the lowest mean monthly consumption expenditure?
- ii) Compare the mean monthly consumption expenditure of Thimphu with Dagana and comment on the difference.
- iii) Suggest plausible reasons for variations in consumption expenditure amongst the dzongkhags?
- iv) What are some of the positive and negative effects of increased consumption expenditure to the Bhutanese economy?

3.6 Ways to Improve Rate of Saving and Investment in Bhutan

Investment is one of the key factors of economic growth. Some of the methods to promote saving and investment are:

a. Setting saving goals

Setting a goal to save money is the immediate step towards savings. From the income that one earns, it is important to save certain amount in banks periodically and use it for investment.

b. Advocacy programmes

In general, people in Bhutan are least aware of the benefits of saving and investment.

Orientation and awareness programmes educate people on savings and investment and encourage them to save.

c. Interest rate

Interest rate determines the volume of savings and investment in the economy. Provision of higher interest rate on savings boosts volume of savings and lowering the interest rate on borrowings leads to increase in investment.

d. Offering different saving schemes

People have different motives in saving money. With the availability of different schemes, they get the option to save in the scheme of their preference. The savers get motivated and tend to increase savings.

Review Questions

1. Fill in the blanks.
 - i) The economic growth of a country is measured by
 - ii) The sector that contributes the most to GDP of Bhutan is
 - iii) The increase in consumption expenditure leads to in savings.
 - iv) Social goods such as roads, education and health in Bhutan are provided by sector.
 - v) The fall in interest rate leads to in saving and increase in investment.
2. Discuss some of the features of Bhutanese economy which are not mentioned in this chapter.
3. There is a move towards privatisation in most of the developing economies of the world. Can the privatisation of industries really help a country like ours? Explain.
4. Why do you think economic diversification is important for economic growth and development?
5. In your opinion, what are some of the factors that limit rate of saving and investment in Bhutan?

CHAPTER

4

Public Finance

Learning Objectives

- *Define public finance*
- *Identify the different sources of government revenue*
- *Explore the types of taxes collected in Bhutan*
- *Differentiate between direct and indirect tax*
- *Demonstrate the importance of paying tax*
- *Examine the areas of public expenditure in Bhutan*
- *Evaluate the pattern of resource allocation by the government*
- *Explain budget and its objectives*
- *Describe the types of budget*
- *Recognise the importance of budget at an individual level*
- *Suggest measures for efficient use of resources*

4.0 Introduction

In the earlier times, most of the economies of the world operated under laissez-faire system, where the role of the government was confined to maintenance of law and order and protection from foreign aggression. After the Great Depression of 1930s, economists saw the role of government in maintaining the economic stability. The emergence of Keynesian economics emphasised on the government intervention in the economy. Hence, the role of the government has increased resulting in huge increase in expenditure and simultaneous increase in revenue to meet the expenditure.

This chapter highlights the income and expenditures made on various activities of the government in an economy.

4.1 Meaning of Public Finance

Public finance is generally understood as the branch of knowledge which is concerned with the income and expenditure of the government. Public finance refers to the revenue and expenditure of the government at all levels: central, district and local.

The Figure 4.1 illustrates the various components of public finance as a mechanism in the allocation of resources and the smooth functioning of the economy.

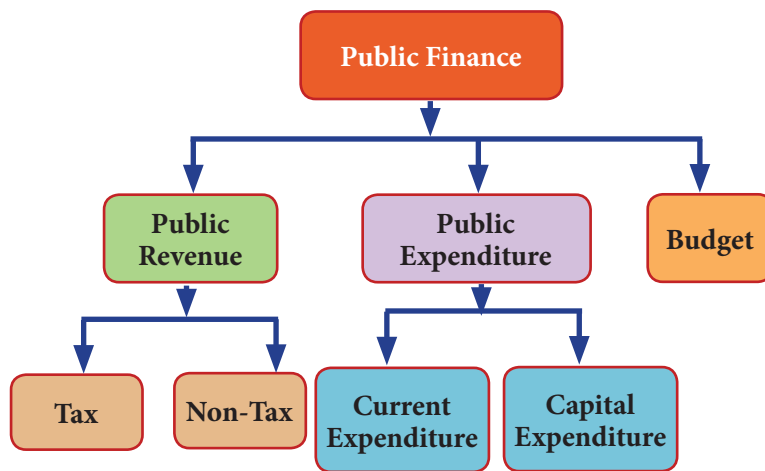


Figure 4.1 Components of Public finance

4.2 Public Revenue

Public revenue is one of the components of public finance. It refers to the income of the government generated from different sources. It is used to finance the government activities.

a. Sources of public revenue

i. Revenue from taxes

Taxes are compulsory contribution made by individuals, private entities and corporations to the government to finance developmental activities and for social welfare. Taxes are classified into two categories namely, direct and indirect taxes.

- **Direct tax:** The direct tax is normally imposed on the income of the tax payer, therefore, the burden of tax is borne by the same person. Example: Business Income Tax (BIT), Corporate Income Tax (CIT), Personal Income Tax (PIT).
- **Indirect tax:** The indirect tax is imposed on the goods and services. The burden of tax is initially borne by the tax payer but ultimately transferred to the consumers. Example: Sales Tax, Import and Export Duty, Entertainment Tax.

Learning Activity 4.1: Exploring the importance of paying taxes

Instructions:

1. Refer the latest Annual Budget Report of Ministry of Finance to answer the following questions.
2. Read the case study on the importance of paying tax.

Denmark Proves High Taxes can mean Happiness

Almost everyone benefits in some way from the large amount of money the government invests in its population. All have access to free healthcare and education, even at university level. A government scheme known as 'Flexicurity' provides income security to both business owners and employees. It allows employers to lay off workers easily in times of hardship to retain profits, but also provides the newly unemployed with considerable help in finding a new job. Generally, it seems government spending relieves many of the anxieties of modern life for Danes. They need not worry excessively about suddenly needing expensive surgery, funding their children's education or finding a new job should they lose one.

High taxes and extensive welfare provision by the Danish government means that it has one of the narrowest wealth gaps in the world. There is much less of visible elite in Denmark. It's likely that this contributes to the high happiness levels in Denmark as demonstrated in contrast with the strong sense of resentment towards highly-paid business leaders in the UK. This approach – when combined with few instances of corruption – also explains the high levels of trust in the Danish government. Trust means that Danes are happy to hand over their money as tax, safe in the knowledge that it will be spent in ways beneficial to society.

(Source: <https://www.oxfordstudent.com/2016/08/03/>)

- i) Answer the following questions with reference to the Annual Budget Report of Ministry of Finance
 - a. Find out the sources of tax revenue which contributed the highest to the public revenue and give possible reasons.

- b. Which is the lowest source of tax revenue? Recommend at least three measures to increase its contribution.
 - c. List the types of taxes collected in Bhutan.
 - d. What are the benefits of paying taxes?
 - e. Do your family members pay taxes? What are their perceptions on paying taxes?
- ii) Using the information from the case study, answer the following question:
- a. How is Denmark able to achieve happiness?
 - b. What are the benefits of filing taxes honestly in Denmark?
 - c. Do you think Bhutan should also impose higher tax rate like Denmark? Why?
- iii) Design a poster in groups to illustrate the importance of paying taxes in Bhutan. You can present your work to the class.

b. Revenue from non-tax

Besides taxes, government also generates revenue from non-tax sources. Non-tax revenue sources, amongst others, constitute:

- i.) Administrative fees and charges: Fees and charges are paid to the government for the special services rendered by the government. Birth registration fees, land transaction fees, vehicle registration fees, and court fees are some of the examples.
- ii.) Revenue from government departments: It refers to the income generated by the government departments. Income from public transport, electricity and water supply are some of the examples.
- iii.) Grants as a source of revenue: Grants are voluntary contributions made by individuals, international organisations and foreign governments to a government for a specific purpose.
- iv.) Borrowing as a source of revenue: Governments in order to fill the gap between the planned expenditure and estimated revenue, borrow money from internal and external sources.

4.3 Public Expenditure

Public expenditure is the spending made by the government on provision of public goods and services.

Public expenditure plays an important role in promoting the economic and social welfare of the country. It helps to achieve economic and social welfare objectives of the government such as reducing regional disparities, creating infrastructural facilities, developing human resources, providing social security benefits and promoting private sectors.

There are two types of public expenditure:

- i.) Current expenditure refers to government spending on regular functioning of government departments, maintenance, and provision of services. This type of expenditure is incurred regularly within a fiscal year.
- ii.) Capital expenditure includes government spending on creation of capital assets like highways, bridges and schools.

The table 4.1 illustrates the different elements of capital and current expenditures.

Table 4.1

Current expenditure	Capital expenditure
Salaries of civil servants Defence (armed forces/police)	Construction of school buildings/ dzongs/
Medicines	New equipments
Road maintenance	Road, bridge, air ports construction
Subsidies and grants Interest	New plants (hydro power, industries)

Learning Activity 4.2: Evaluating the pattern of resource allocation**Instructions:**

1. Visit the website of Ministry of Finance to collect information on budget allocation by sector for the current fiscal year.
2. Tabulate the information as per the format in Table 4.2.

Table 4.2: Budget allocation for the Fiscal Year.....

Sectors	Total Expenditure (Nu.)
Education	
Health	
Agriculture, Livestock, Forests and Environment	
Communication	
Law and Order Services	
Roads	

Answer the following questions

- i) Present the information in the form of pie chart.
- ii) Identify the sector in which the government has incurred the highest expenditure and the lowest expenditure. Give reasons.
- iii) Arrange the sectors in order of importance as per your opinion in respect to budget allocation. Justify.
- iv) Write a letter to the government expressing your gratitude for providing free education. Share it to the class.

4.4 Budget

With the mandate to undertake various economic and social activities, the government raises revenue to finance its expenditures. This requires the government to draw a financial plan corresponding to various activities it undertakes in a year. Thus, the government prepares an annual financial statement describing in detail the estimated revenue and proposed expenditure for a year, termed as budget.

However, in times of unforeseen situations like natural calamities, additional activities and inflation, government requires additional budget known as supplementary budget.

a. Importance of budget

Budget is the mirror of the performance of the government as it provides financial transparency and accountability. The following statements describe the importance of budget:

- i.) With increase in activities of the government, there is a need to mobilise large resources. Thus, there has to be proper planning to allocate the resources in accordance to the social and economic priorities of the economy.
- ii.) It is a framework which guides the implementation, assessment, monitoring and evaluation of all government programmes to ensure sound financial management.
- iii.) Budget provides the financial status of the government in detail.

Learning Activity 4.3: Practising the skills to estimate, allocate and forecast budget

Instructions:

Prepare a budget estimation for conducting a class picnic based on the collection of Nu 100 per student. Detailed breakdown of cost and total budget are required.

Answer the following questions

- i) What is the estimated budget?
- ii) Suggest alternative ways to look for additional budget in case there is a shortage.
- iii) What is the benefit of preparing the budget estimation for a class picnic?
- iv) How would you use this experience to initiate developmental activities for your class?

Review Questions

1. From the given choices, identify a type of tax in which the burden cannot be shifted to another person.
2. From the given choices, identify a type of tax in which the burden cannot be shifted to another person.
 - A Custom duty
 - B Sales tax
 - C Export tax
 - D Land tax
2. Which one of the following is an example of current expenditure?
 - A Construction of hospital
 - B Purchase of medical equipment
 - C Purchase of medicine
 - D Training nurses
3. Match the following:

Sources of government revenue	Activities
1. Direct Tax	a. Development aid from the Asian Development Bank.
2. Indirect Tax	b. Taxes from micro business entity.
3. Borrowing	c. Loan from the World Bank to develop infrastructures.
4. Grants	d. Taxes on manufactured goods.
	e. Revenue from fees and charges

4. How do taxes help in promoting social welfare of the people?
5. Public expenditure in Bhutan is increasing over the years due to the developmental activities of the government. What are some of the recent development activities that are undertaken by the Royal Government of Bhutan?
6. How can you make sure that the resources available are used in a sustainable manner? Explain.
7. Do you think it is necessary for the government to increase its expenditure? Justify.
8. Is a high supplementary budget an indication of inefficient use of resources? Support your answer with TWO points.
9. Discuss in a group and come up with strategies to promote the efficient use of public resources.

CHAPTER 5

Economic Growth and Development

Learning Objectives

- *Explain the nature of goods and services*
- *Differentiate between public and private goods*
- *Discuss the benefit of public goods*
- *Explain the circular flow of income in two sector model*
- *Differentiate between domestic product and national product*
- *Differentiate between economic growth and economic development*

5.0 Introduction

Economic growth and development are important goals of every country. Economic growth is important as it measures the growth of the individual's per capita income which indicates wellbeing. It enables a rise in living standards and greater consumption of goods and services. Economic development is associated with improvements in a variety of areas or indicators apart from the per capita income. Every year, the government initiates various economic development programmes and invest huge amount of money to bring improvement on various indicators such as literacy rates, life expectancy, unemployment and poverty rate. This chapter discusses various concepts of economic growth and development.

5.1 The Nature of Goods and Services

An economy produces various types of goods and services to satisfy human wants. Goods are tangible or material things that can be seen or touched. Clothes, electronic gadgets, books are some examples of goods. Services are intangible or non-material items that are performed by people. Medical check-up, haircut, education are some examples of services.

Goods and services are classified as follows:

a. Economic goods and non-economic goods

Economic goods are those goods which are produced from scarce resources, capable of satisfying human wants and have a price tag. Economic goods are man-made and are not free gifts of nature. Non-economic goods are those goods which have the ability to satisfy human wants but are unlimited in supply and do not have a price tag.

b. Intermediate goods and final goods

Intermediate goods are those goods which are further processed before they are sold to the consumers. These goods can also be called as semi-finished goods. Final goods are those goods which are used by producers as investment and purchased by consumers for final consumption.

c. Public goods and private goods

Public goods are those goods which are provided by the government for the social benefits. They are non-excludable and non-rival in nature. Non-excludable means that an individual cannot be prevented from consuming the goods whether or not an individual pays for it. Non-rival means that the goods can be consumed by several individuals simultaneously without diminishing the utility of others. On the contrary, private goods refer to those goods which are owned by private individuals and which must be purchased to consume it.

Learning Activity 5.1: Identifying and valuing different types of goods

Instructions:

1. Study the pictures carefully and answer the questions that follow.



A



B



C



D



- a. Categorise the pictures into different types of goods. State reasons.
 - b. Give two more examples for each type of goods.
 - c. Identify some non-economic goods which might become economic goods in the future. Provide justification.
 - d. What are the purposes of non-economic economic goods?
2. Walk around the school campus to take note of the public goods in the school and its vicinity.

Answer the following questions

- a. What public goods do you see around?
- b. What are the benefits of these public goods?
- c. How will your life be affected if these public goods are not available in your area?
- d. Suggest some measures to take care of the public goods.

5.2 Circular Flow of Income

In an economy, people are engaged in various economic activities. These activities include various economic transactions with each other. This economic interaction and interdependence is explained using the model of circular flow of income. Circular flow of income shows the flow of payments and receipts for commodities and factor services between different sectors of an economy. The economy can be broadly classified into four different sectors namely household sector, business sector, government and rest of the world.

- **Household sector:** Households are the owners of the factors of production. They sell their factor services, and in return, receive income in the form of wages and salaries, interest, rent, and profit. Using these incomes, households purchase goods and services from the business firms.
- **Business sector:** Business sectors are the producers of goods and services. They hire the factor services from the household sector and sell their goods and services to the household sector.

Two sector model of the circular flow of income can help to understand the interaction between households and business sector.

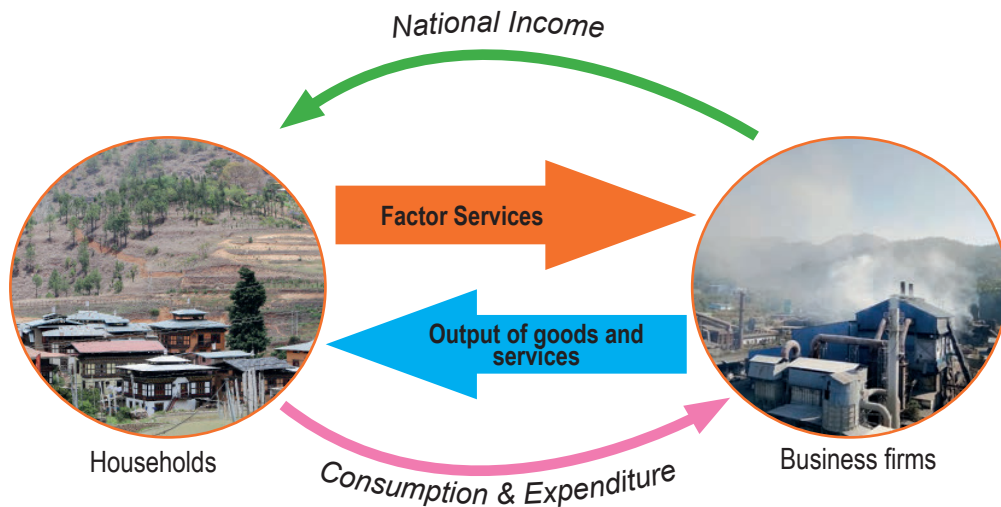


Figure 5.1 Two sector model

In Figure 5.1, factor services in the form of land, labour, capital and enterprise flow from households to firms. In return, money flows in the form of factor income from firms to households. The factor earnings in the form of wage, rent, interest and profit form the national income.

The business sectors make use of the factor services to produce goods and services. These goods and services then flow from firms to the household. The households consume and pay for the goods and services to the business firms in the form of consumption expenditure.

In the model of the circular flow of income, there are two types of flow:

- **Real flow:** Real flow comprises flow of factor services and flow of goods and services among the sectors of an economy.
- **Money flow:** Money flow comprises flow of receipts and payments for factor services and commodities among different sectors of an economy.

Thus, money payments flow in a circular manner from households to firms and from firms to households.

Learning Activity 5.2: Studying Economic Models

Instructions:

Read the information in the box and study Figure 5.2 to answer the questions.

In Figure 5.2, a capital market has been added to the model. Now, a part of income of household flows to firms in the form of consumption expenditure and a part of it flows to the capital market in the form of savings, as indicated by the arrow from household to capital market. These savings flow to the firms through capital market to finance investment.

There would be equilibrium in the circular flow of income if the investment is equal to savings.

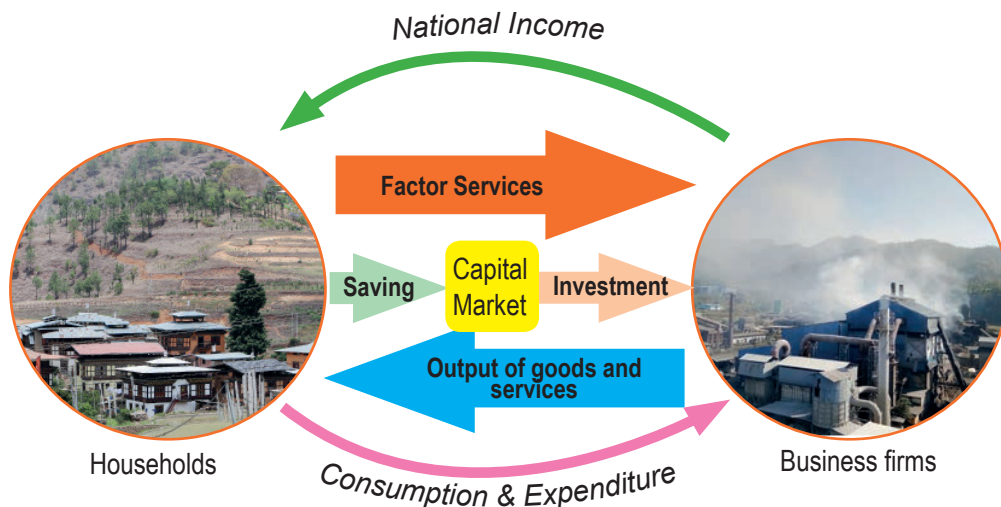


Figure 5.2 Two sector model with saving and investment

1. Explain the figure in your own words.
2. How are saving and investment related to each other?

3. If saving is more than investment, what will happen to the level of economic activities?
4. It is important for the Bhutanese people to improve their saving habits to boost the investment. State some strategies to improve saving among the Bhutanese.

5.3 Domestic Product and National Product

National income is the sum of total earnings in terms of rent, wage, interest and profit. It can be estimated through different methods by considering the final output, factor income or the final expenditure.

Domestic product is the total value of all final goods and services produced within the geographical boundary of a country in a given period of time. It includes goods and services produced domestically, both by the citizens of the country as well as foreign nationals working in the country.

National product is the total value of all final goods and services produced by the citizens of a country in given period of time, operating within or outside the geographical boundary of a country. In other words, national product is the income earned by the nationals of a country in a given period of time. National product is technically considered as the national income of a country.

5.4 Economic Growth

Economic growth of a country can be considered in terms of time period of short run and long run. In the short run, economic growth refers to the rate at which Gross Domestic Product (GDP) increases in the short run. In the long run, economic growth is defined in broader terms as a sustained increase in per capita income and accompanying structural changes in the economy. Structural changes mean a shift of economic activities from less productive to more productive areas. A high growth rate of GDP is considered to be centrally important for improving the living standard, alleviating poverty, creating more employment opportunities and greater social security.

Simon Kuznets, a noted economist, who is also known as the father of national income accounting identified, five major features of modern economic growth as shown in Figure 5.3.

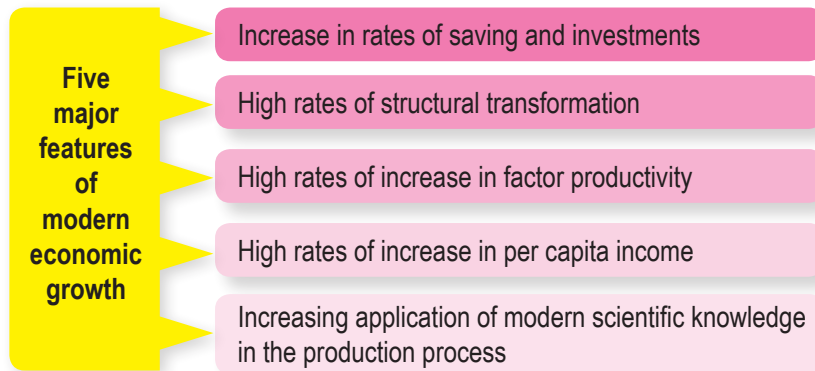


Figure 5.3 Five major features of modern economic growth

5.5 Economic Development

Economic development is a much wider concept which implies to a process of overall transformation in different spheres of human life. Economic development implies progressive changes in social, political, institutional and economic structures. A country's economic development is usually indicated by an increase in citizens' quality of life with education, proper employment and suitable shelter.

Economic growth does not take into account the depletion of natural resources, which might lead to pollution, congestion and diseases. Development, however, is concerned with sustainable use of natural resources. Economic growth can take place without economic development, but for economic development to take place economic growth is a necessity. In this context, we can say that growth is a subset of development.

Learning Activity 5.3: Exploring and analysing data

Instructions:

1. Extract the data of Gross Domestic Product and Gross National Product of Bhutan for the last five years from National Statistical Bureau website.
2. Use the value of GDP and GNP at current price and tabulate the data.

Year (s)	GDP	GNP

3. Draw a line graph to show the trend. You may use excel worksheet to draw the graph.

Answer the following questions

- i) What is the general trend of GDP and GNP of Bhutan?
- ii) Which years had Bhutan the highest and the lowest GDP and GNP? State plausible reasons.
- iii) How do GDP and GNP influence the economic development of a country?
- iv) Suggest ways to boost the GDP and GNP.

Review Questions

1. Use of flour by bakery to bake bread is an example of:
 - A private goods.
 - B intermediate goods
 - C public goods.
 - D final goods.
2. Explain the interdependence between the households and firms.
3. Name two public goods and explain any two key characteristics of public goods.
4. Distinguish between intermediate and final goods with an example each.
5. Public goods are much preferred goods by all. Propose some practical measures to sustain such goods at your locality.
6. Differentiate between domestic product and national product.
7. Economic growth is necessary for the country but it is not sufficient for overall transformation of the country. Explain.
8. Trace some of the developmental needs for Bhutan. Give reasons, why do you think they are the developmental needs?

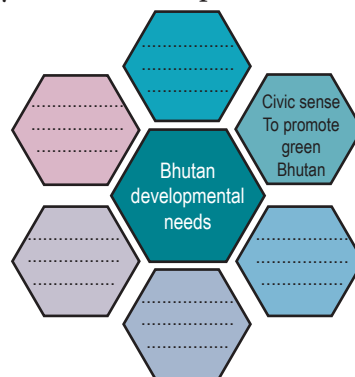


Fig. 5.4 Bhutan Developmental Needs

CHAPTER 6

Measurement of Economic Performance

Learning Objectives

- *Explain the various economic indicators as a means to measure economic performance of a country*
- *Explain GNH as an alternative indicator of economic development in Bhutan*
- *Analyse the recent economic issues and suggest remedial measures to address them*

6.0 Introduction

The measurement of economic performance involves assessing the status of an economy in different periods. The data on the economic performance can be used to compare the performance of an economy with other national economies. It facilitates the policy makers in making valuable judgment and necessary interventions. Economists use various economic indicators to measure economic performance of a nation. It helps to understand whether the economic performance has improved or slowed down over the years.

Although economic growth is necessary, it is not a sufficient condition for human wellbeing. Considering the importance of human wellbeing, Bhutan adopts GNH as a holistic approach to achieve economic growth and development.

This chapter highlights various economic indicators used to measure the performance of an economy, including GNH as an alternative indicator of economic development. The chapter also discusses the economic issues in Bhutan.

6.1 Economic Performance

The performance of an economy is based on the achievement of its economic

objectives. The economic objectives for most of the countries are the sustainable growth and development. One of the objectives also include maintaining economic stability in response to unpredictable economic shocks like high inflation, recession, and depression.

6.2 Economic Indicators

An economic indicator is a statistic that provides valuable information about the economy. The economic indicators are used to analyse various aspects of national and global economic activities. Some of the economic indicators are shown in Figure 6.1.



Figure 6.1 Types of economic indicators

a. Unemployment

It refers to those people in the labour force without a wage paying job although willing and available for work. The rate of unemployment can be used as a measure of the economy's production stance. Lower rate of unemployment indicates better economic performance.

b. Current account

It is one of the two main components of balance of payment, the other being the capital account. The current account records the quantity of goods and services that has been exported and imported within a year. Favourable current account shows that the country exports more than it imports, thereby, indicating better performance.

c. Income inequality

It refers to the disparity in the income distribution of a nation. It is related to a situation where there is high concentration of income in the hands of small percentage of population. Lower income inequality is an indication of better economic performance.

d. Human Development Index (HDI)

HDI is a summary measure of an average achievement in all major social and economic indicators that are responsible for economic development. It is broader and more encompassing indicator of development than GDP. It is measured on a scale of 0-1, where 0 means absence of human development and 1 means perfect level of human development. HDI is measured based on three key dimensions namely; longevity, education and GDP per capita.

i. Longevity

Longevity refers to the life expectancy of a person. It means the number of years a person can be expected to live and is measured by life expectancy at birth. High life expectancy indicates better economic performance.

ii. Education

Education refers to knowledge. It is measured by looking at adult literacy and enrollment in school. High literacy rate indicates a better economic performance.

iii. GDP per capita

GDP per capita refers to the average income of a person in a year. Increase in GDP per capita indicates better performance of the economy and higher living standard of a country.

$$\text{GDP per capita} = \text{National Income} \div \text{Total Population}$$

Learning Activity 6.1: Analysing pro-family economic approach**Instructions**

1. Read the extract on pro-family economic agenda carefully.

What is pro-family economic approach?

Pro-family economic approach can be understood as an economic policy which takes family's wellbeing into important consideration. It believes in the idea that productivity in an economy can be enhanced by supporting families as they live and work. Some of the examples of pro-family economic approach are paid maternity leave, higher minimum wage, paid for day cares, free school supplies, adequate income for families to save, equal access to education, training and health care.

2. Using the information from the text in the Figure 6.1, complete the Table 6.1 to relate the economic indicators to family economic agendas. One example is provided to guide you.

Table 6.1

Sl. No.	Economic indicator	Pro-family economic agenda	Justification
1.	Education	Free school supplies	Will facilitate better access to education which increases the enrollment of students and literacy rate among the family members.
2.	Unemployment		
3.	Longevity		
4.	GDP per capita		

Answer the following questions

- i) How does the pro-family economic agenda help the family?
- ii) Amongst the various examples of pro-family economic agenda listed above, which is the most relevant in our country at the moment? Give reasons.
- iii) Relate the principles of pro-family economic approach to economic agenda of our country. Justify with examples.

6.3 Gross National Happiness and Economic Development

The concept of Gross National Happiness (GNH) was realised by His Majesty Jigme Singye Wangchuck, the Fourth King of Bhutan in the early 1970s. GNH is enshrined as a goal in the Constitution of Bhutan. GNH is a holistic development approach which balances material and non-material values. It is an index which is used to measure the collective happiness and wellbeing of the population.

GNH is the overall guiding development philosophy of Bhutan. His Majesty, the fourth King of Bhutan pronounced the visionary statement that, “Gross National Happiness is more important than Gross Domestic Product (GDP)”. Since the Ninth Five Year Plan (2002-2007), developmental activities in Bhutan are aligned with GNH principles.

GNH is built on four pillars:



Figure 6.2 Pillars of GNH

a. Good governance

Good governance is a broader paradigm which emphasises on strengthening democracy, improving public service delivery, promoting equality, accountability, transparency, curbing corruption and ensuring safety of the nation.

b. Sustainable and equitable socio-economic development

Sustainable and equitable socio-economic development is to ensure that the benefits of development are shared sustainably and equitably which contributes to the development of a just and compassionate society.

c. Preservation and promotion of culture

Preservation and promotion of culture recognises the importance of the nation's rich cultural heritage and values. It plays a significant role in meeting spiritual and emotional needs, maintaining the country's distinctive national identity, and in protecting the country from the negative impacts of modernisation.

d. Environmental conservation

Environment conservation is important for the spiritual and social wellbeing of people besides providing critical services such as water and energy. Therefore, it has to be protected and conserved in the interests of present and future generations. The constitution of Bhutan also mandates the country to maintain its forest cover at least 60% of its geographical areas at all times.

Learning Activity 6.2: Identifying activities contributing to domains of GNH

Instructions:

Work in groups and complete the Table 6.2 based on the example provided for good governance.

Table 6.2

Nine domains of GNH	Activities used to achieve the domain
Good governance	Establishment of ACC, RAA, decentralisation of government.
Community vitality	
Health	
Education	
Psychological wellbeing	
Cultural diversity and resilience	
Time use	
Ecological diversity and resilience	
Living standards	

Answer the following questions

- i) Among the nine domains which one is more relevant to economic development? Why?
- ii) List the activities in your school which are aligned with the nine domains of GNH.
- iii) How is the spiritual wellbeing of the people taken care? Explain.
- iv) How will you practice the cultural values in your daily life? Explain.

6.4 Economic Issues

Economic issues faced by the world, regions and countries, include growth instability, inflation, environmental degradation and energy depletion, income inequality, labour issues, and the impact of new technologies.

The global economy faces a number of serious challenges. Some global issues are short term and self-correcting, such as the recession caused by the credit crunch and related banking crisis. Other short-term issues include the global oil shocks and trade tensions among the major economies.

Long term global issues may require a strategic approach to finding solutions. These problems include global inequality, global poverty, the exhaustion of non-renewable resources, depletion of the environment and global warming, and systemic problems in terms of policy and plans.

a. Economic Issues in Bhutan

The Bhutanese economy is closely interconnected with regional and global economy. An economic crisis in the region might easily affect the Bhutanese economy. This kind of effect is known as spillover effect, where an economic condition of one country spreads to another country.

Economic issues in a country may be caused by factors such as misallocation of resources, lack of policy intervention, lack of research and development, and uncertain natural conditions.

Learning Activity 6.3: Identifying the recent economic issues in Bhutan**Instructions**

Read the case on economy at the cross-roads.

Economy at the cross roads?

A three star rated fully furnished hotel for sale at Nu 70M with transferable loan. Buildings for sale, heavy machinery, trucks and land put up for auction. There is something wrong going by these activities.

Is the economy in a problem?

Going by the increasing non-performing loans (NPL), the symptoms are similar to the one that the country experienced in 2011 and 2012 when the rupee crisis struck the economy. Back then, construction boom was draining the rupee reserve. Today it is the boom in hotels.

If the laxity in reserve management was the problem causing rupee shortage, today it is the growing NPL that is affecting the health of financial institutions. In both the cases, trade imbalances prevailed and the ripple effect distorted other sectors.

The connection and interdependence of one sector on the other is as entwined as the smallness of Bhutanese society. For instance, hoteliers not doing well will affect the retailers, groceries, and handicrafts and, in the end, banks will have to bear the brunt of failures of all these sectors. When the banks run out of business, entire economy suffers.

The government must use prudence and handle the issue delicately. One wrong policy could cost the nation's reputation of being high-end destination. Already, reputed international travel companies are striking Bhutan off its list and mysterious agents in the region are selling Brand Bhutan across the world.

What is even more staggering from the RMA's financial sector performance review is almost half of the loan portfolio constitutes non-enterprising loan, meaning that these loans are consumption and import driven with no job creation. This is worrisome because sectors that have the potential to create jobs, substitute imports and promote exports are not getting the required financing opportunity. This is because banks ought to make profit with minimal risks where returns are guaranteed. In the process, banks land up giving loans to those who have the capacity to pay back.

Nevertheless, when Bhutan is contemplating on the structural flaw in the economy, the world is already talking about the fourth industrial revolution on the back of artificial intelligence, block chain, robotics and fintech.

His Majesty, during the 112th National Day spoke clearly on the need for 21st century economic road map. At any rate, Bhutan's economic development must transcend monetary gains; promote equitable socioeconomic development that is world class and happiness oriented.

(Source: Kuensel Editorial, December 24, 2019)

Answer the following questions

- i) Identify the economic issues in the case study.
- ii) What are the causes of economic issues identified in question i?
- iii) What would be the effect of these issues on the economy?
- iv) With reference to the economic issues in the case study, identify any two pertinent current economic issues in Bhutan.
- v) What are the causes of the economic issue that you have identified in question iv?
- vi) What preventive measures should government put in place to minimise severe spillover effects?

Review Questions

- Human Development Index (HDI) measures all the of following indices except
 - adult literacy.
 - infant mortality.
 - life expectancy.
 - population growth rate.
- If you were given an opportunity to frame rules and regulations to sustain economic development and protect environment, what could be some of the new policy measures you would like to frame? Why?
- Identify some of the limitations associated with GDP as a measurement of economic growth and development.
- In what ways is GNH a better substitute for GDP as an indicator of economic growth and development?
- How do you think GNH helps to minimise the harmful effects of GDP per capita on environment, personal life, social harmony, indigenous culture and mental happiness?
- Read the statement below and answer the questions:

“The State shall strive to promote those conditions that will enable the pursuit of Gross National Happiness.” The Constitution of Bhutan, Article 9 (2008)

 - In your view, what are some of the conditions that would enable the State to promote GNH?
 - How can the State promote those conditions?
 - What can you do at an individual level to promote the conditions to maximise happiness?
- Identify some of the human values that are important to live a satisfying life in your future. Explain why it is important.
- Identify some of the values that are important for economic growth. Do you think that similar values can become a serious hindrance to GNH? Justify your views.
- Explain spillover effects with examples.
- How do the economic issues in the world affect the Bhutanese economy?

CHAPTER 7

Balance of Payments

Learning Objectives

- *Explain the components of balance of payments*
- *Explain the difference between balance of trade and balance of payments*
- *Analyse data on export and import of Bhutan to show the trend*
- *Define exchange rate with examples*
- *Explain the roles of exchange rate*

7.0 Introduction

In today's world, the economic interdependence among countries has become important for economic growth and development. The constant flow of goods and services amongst countries demands every country to maintain an account of economic transactions. Economic transactions are generally reflected in the balance of payments (BoP).

This chapter deals with the components of balance of payments, meaning of balance of trade, and the concept of exchange rate. Further, it discusses the trend and current status of Bhutan's balance of payments

7.1 Meaning and Components of Balance of Payments

a. Meaning of balance of payments

The Balance of payments of a country is a systematic record of all economic transactions between the residents of a country and rest of the world during a year. It presents a classified record of all receipts on account of goods exported, services

rendered and capital received by residents. It also includes payments made by residents on account of goods imported, services received, and the capital transferred to rest of the world.

b. Components of balance of payments

Balance of Payments is broadly categorised into two, namely, current account and capital account. Figure 7.1 illustrates the components of Balance of Payments with their elements.

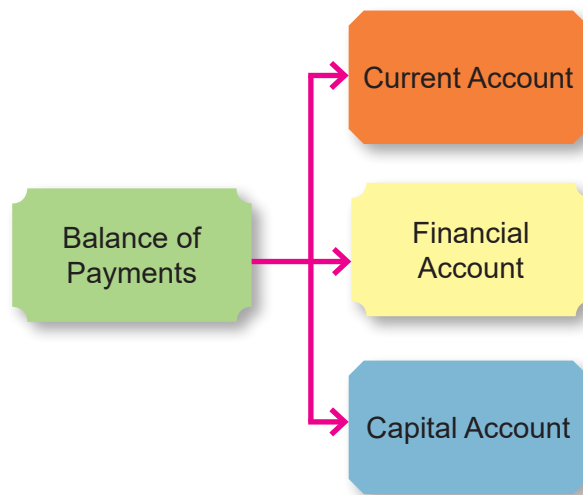


Figure 7.1: Components of Balance of Payments

Balance of Payment consists of three types of accounts: Current account, Capital account and Financial account.

i. Balance of Current Account

Balance of current account is an important indicator of an economy's health. Balance of current account shows the balance between the net credit and net debit on the flow of the value of goods and services, incomes and current transfers between residents of one country and residents of foreign countries during a given period of time. The balance of the current account may not be in equilibrium but it will show either surplus or deficit.

ii. Balance of Capital account

Balance of capital account is regarded as one of the primary components of the balance of payments of a nation. It shows the balance between the net credit and net debit entries for transition in non-produced, nonfinancial assets and capital transfers between residents of one country and residents of foreign countries during a given period of time.

iii. Financial account

The financial account shows the balance between net credit and net debit for direct investment, portfolio investment and reserves assets between residents of one country and residents of foreign countries during a given period of time.

Balance of current account and balance of capital account are interdependent. A deficit in the current account must be settled by a net surplus on the capital account. A country's balance of payments is said to be in equilibrium when there is perfect equality between the supply and the demand for foreign exchange. However, in reality the balance of payments of any country tends to be in disequilibrium either in the form of surplus or deficit. When a country's credit is greater than debit, the balance of payment is said to be surplus. On the other hand, if the credit is less than the debit, it is said to be deficit balance of payment.

c. *Surplus and deficit in the balance of payments*

Individuals, business organisations, and government make economic transactions with other countries. These economic transactions can be either in the form of receipts or payments in foreign exchange.

In accounting sense, the balance of payments is always considered to be in equilibrium. However, in reality the balance of payments of any country tends to be in disequilibrium either in the form of surplus or deficit. A country is said to have a favourable or surplus balance of payments, when receipts from other countries are more than the payments. On the other hand, when payments to other countries are more than the receipts from them, a country is said to have an unfavourable or deficit balance of payments.

7.2 Meaning of Balance of Trade

Balance of Trade is one of the components of current account in the balance of payments. It shows the balance of imports and exports of goods (visible) and services (invisible). If a country exports more goods and services than it imports, it has favourable balance of trade. On the other hand, if the imports are more than exports, it is said to have unfavourable balance of trade.

7.3 Status of Balance of Payments in Bhutan

It is quite difficult to ascertain a definite trend of Bhutan's balance of payment during the last decade. The fluctuating feature of Bhutan's balance of payments during those years can only be interpreted and comprehended properly when we analyse its transactions in current and capital accounts. The statement of balance of payments helps the government to decide on various areas such as trade policies, fiscal policy, determining country's currency value and its potential as an economic partner.

Learning Activity 7.1: Analysing Bhutan's balance of payments to understand its status**Instructions**

1. In a group of 3 to 4 members, collect data on exports and imports of Bhutan for the last five years from relevant sources.
2. Tabulate the information in Table 7.1

Table 7.1

Year	Exports (X)	Imports (M)	Net export (X-M)

3. Draw a bar graph using the data from Table 7.1 to show the current status and trend of balance of trade of Bhutan.
4. Identify top ten goods and services imported and exported by Bhutan to understand the nature of goods and services exported and imported.

Answer the following questions

- i) What is the current status of Bhutan's Balance of Trade?
- ii) Which years did Bhutan have the highest export and import? Suggest plausible reasons.
- iii) What would happen to our country if it underwent sustained deficit balance of payments?
- iv) What measures would you suggest if Bhutan experienced deficit balance of payments?
- v) Which of the identified goods and services can be replaced to minimise the imports?
- vi) Besides the goods and services currently exported, what other goods and services can Bhutan export?

7.4 Exchange Rate

The exchange of goods and services among the countries are carried out in terms of foreign exchange. The rate at which a country's currency is exchanged with another country's currency or the price we pay to buy currency of another country in terms of our currency is known as exchange rate. For example, the Ngultrum's (Nu) exchange rate states how much a Ngultrum is worth in a foreign currency.

Exchange rate of a country generally depends on the demand for and supply of domestic currency in the international market. Therefore, the exchange rate fluctuates on a daily basis. When the value of a country's currency increases in relation to another country's currency, it is called as appreciation of currency whereas the decrease in the value of a country's currency against other country's currency is termed as depreciation of currency. The Figure 7.2 represents a pictorial concept of appreciation and depreciation of currency.

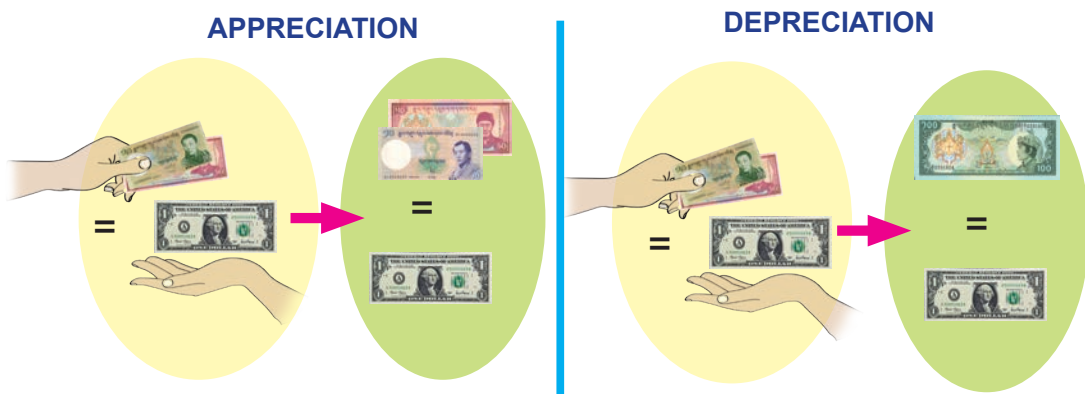


Figure 7.2: Appreciation and Depreciation of currency

a. Importance of exchange rate

Generally, the currency of a country is not acceptable beyond its national boundaries for making transactions. The exchange rate determination is, therefore, crucial for undertaking international transactions that require the use of foreign currencies. The exchange rate plays important role in promoting international trade.

b. Role of exchange rate

- Exchange rate is one of the important determinants of a country's economic health. Appreciation of the domestic currency indicates better performance of the country's economy.

- It plays a vital role in international trade. Higher valued currency makes a country's import cheaper and its export more expensive in foreign markets.
- Stable and competitive exchange rate attracts foreign capital, thereby, facilitating economic diversification.

Learning Activity 7.2: Examining the role of exchange rate

Instructions

1. Read the following extract on the exchange rate.

Imagine that the exchange rate of Ngultrum against USD is Nu 70 (US \$ 1 = BTN 70). Also assume that there is a considerable rise in the value of Ngultrum against the USD.

Answer the following questions

- i) Discuss the following questions in the context of above situation.
 - a. State whether you would get more or less Ngultrum for every USD.
 - b. What would happen to volume of imports of goods from America?
 - c. What would happen to demand for Bhutanese goods in America?
 - d. How would this influence the number of American tourists visiting Bhutan?
- ii) Examine and discuss the effect of change in the value of Ngultrum against foreign currencies on the following areas:
 - a. Bhutan's balance of payments.
 - b. Employment opportunities in Bhutan.
 - c. Industrial development in Bhutan.

Review Questions

1. What do you understand by balance of payments?
2. Explain the differences between balance of payments and balance of trade.
3. Define exchange rate in your own words.
4. Critically analyse the impact of surplus and deficit balance of payments with regard to the health of the economy of the country.

CHAPTER

8

Trade Policy

Learning Objectives

- *Explain the concepts of free trade and protectionism*
- *List down regional and international organisations for economic cooperation with their objectives and functions*
- *Explain contributions made by the international organisations to the Bhutanese economy*
- *Examine current international economic issues.*

8.0 Introduction

The rapid changes in economic conditions of countries around the world demands the need for countries to come together and discuss on economic issues of mutual interest for smooth flow of goods and services. In the absence of trade policies there will be unequal distributions of income, and imbalance in economic growth and development. Thus, trade policy is one key agenda that is normally discussed during international conventions.

This chapter discusses about trade policies, regional and international organisations for economic cooperation, and global economic issues emerging from economic cooperation.

8.1 Free Trade and Protectionism

Free trade and protectionism are two trade regimes widely practiced around the world. These forms of trade are governed by trade policies and conventions.

c. Free trade

It is a trade policy that does not restrict the flow of goods and services among trading

countries. Free trade takes place when there are no barriers created by the government to trade, or barriers are kept to the minimum. The barriers to trade include high tariffs, quota restrictions, subsidies to domestic industries, and voluntary export restraints.

d. Protectionism

It is a trade policy that restricts imports from other countries using tools such as tariff on imports, import quotas, subsidisation of domestic industries and foreign exchange regulations. Such trade barriers are adopted especially by developing countries to insulate themselves from the negative effects of free trade and globalisation.

Learning Activity 8.1: *Analysing free trade and protectionism*

Instructions:

1. Drawing clues from Figure 8.1, organise a class debate.



Figure 8.1: Free Trade and Protectionism

2. Divide class into three groups (A, B, and C)
 Group A will talk on free trade.
 Group B will talk on protectionism.
 Group C will act as a moderator.
3. The two groups 'A' and 'B' will justify their stand on the topic assigned.
4. After the debate, Group C will be given five minutes to prepare a summary report and present the conclusion of their talks to the class.

Answer the following questions

- i) List and discuss the advantages and disadvantages of free trade.
- ii) List and discuss the advantages and disadvantages of protectionism.
- iii) Discuss the differences between free trade and protectionism.
- iv) Of the two trade regime, which one is Bhutan practicing? Explain.
- v) Which trade policy would you recommend for our country? Why?

8.2 Regional and International Organisations for Economic Cooperation

Organisation for economic cooperation is an important means for creating trade networks, scientific, and technological ties among individual countries and groups of countries. It is based on principles like independence and interdependence, equality, and mutual advantage. Economic cooperation is of two types: regional and international economic cooperation.

8.3 Regional Organisations for Economic Cooperation

Countries within a general geographical region come together to promote common as well as national economic interests through mutual cooperation. Some regional organisations for economic cooperation of Bhutan are as follows.

a. South Asian Association for Regional Cooperation (SAARC)

It is an economic and geopolitical organisation that was established to promote socio-economic development, stability, economic welfare, and collective self-reliance within its member countries. Figure 8.2 shows SAARC member countries.

Bhutan is signatory to the following trade agreements under the SAARC.



Figure 8.2: SAARC member countries

i. SAARC Preferential Trade Arrangement (SAPTA)

The trade agreement signed among the member countries of SAARC at Dhaka on April 1993 is known as SAARC Preferential Trade Arrangement (SAPTA). This agreement is to facilitate SAARC member countries to trade on the preferred areas of trade with other SAARC member countries.

Objectives and functions

1. To ensure free movement of goods and services to the member countries of SAARC.
2. To reduce the discrimination of businesses within the regions.
3. Gradual liberalisation of trade among the SAARC members.
4. Promoting and sustaining trade and economic cooperation among the member nations of SAARC.

ii. South Asian Free Trade Area(SAFTA)

A trade agreement among the member states of SAARC, signed during the 12th SAARC summit held in Islamabad from 4th to 6th January, 2004 to facilitate free trade among the SAARC countries is known as South Asian Free Trade Area. This agreement came into force on 1st January, 2006.

Objectives and functions

1. Eliminating barriers to trade and facilitating the cross border movement of goods among the member countries.
2. Ensuring equitable benefits to all members by taking into account of their respective levels and patterns of economic development.
3. Creating an effective mechanism for the implementation and application of this Agreement.
4. Establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.
5. To form and implement the rules of origin to ensure that the product is manufactured by the country which is desirous to export.
6. To allow member countries to prepare a lists of products which are to be restricted to import for the protection of national interest.
7. To provide technical support to the least developed member countries to promote export competitiveness.

b. Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC)

The trade agreement that links Association of Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC) to promote the multi-sectoral cooperation for economic and social progress of the Bay of Bengal region is called BIMSTEC. It consists of seven members that includes 5 members of SAARC and 2 members of ASEAN as depicted in Figure 8.3.

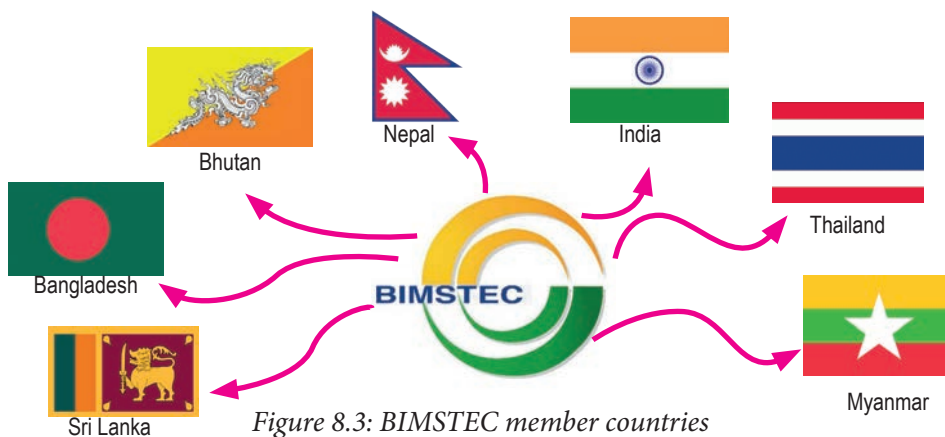


Figure 8.3: BIMSTEC member countries

Objectives and functions

1. Strengthen and improve the economic conditions, international trade, and foreign direct investment cooperation to attract foreign companies to do business and invest in the Bay of Bengal region.
2. Progressively liberalise and promote the foreign trade in products and services.
3. Create a transparent, liberal and facilitative investment regime.
4. Facilitate the economic integration of the least developed countries in the Bay of Bengal region.
5. Research new areas and develop appropriate measures for strong cooperation.

8.4 International Organisation for Economic Cooperation

a. World Trade Organisation

It was officially formed on January 1, 1995 as international organisation to supervise and liberalise international trade. World Trade Organisation (WTO) regulates trade among member countries by providing a framework for negotiating and formalising trade agreement. The headquarters of the WTO is located in Geneva, Switzerland.

Objectives and functions

1. To set and enforce rules for international trade.
2. To provide a forum for negotiating and monitoring further trade liberalisation.
3. To resolve trade disputes.
4. To increase the transparency of decision-making processes.
5. To help developing countries benefit fully from the global trading system.
6. Providing technical assistance and training to developing and least developed economies.
7. Cooperating with other international organisations.

Learning Activity 8.2: Understanding the role of economic cooperation to Bhutanese economy

Given the possible benefits and threats of regional and international economic cooperation, a country has to take a cautious step in joining such organisations.

Instructions:

1. Study the cartoon concept provided in Figure 8.4 carefully.

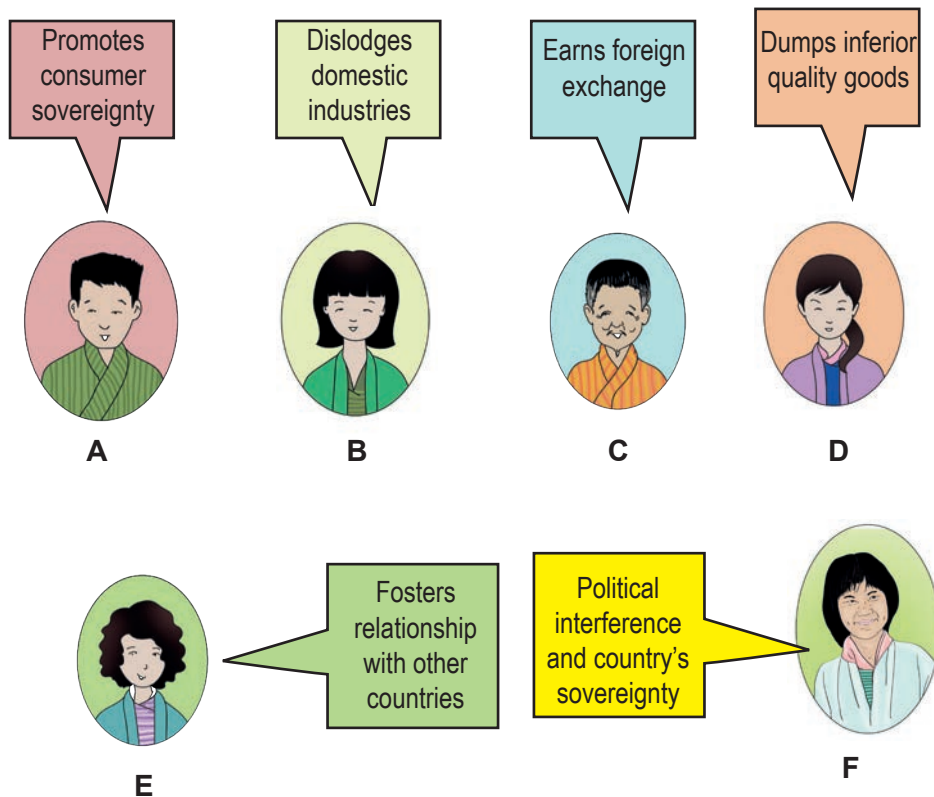


Fig 8.4 Advantages and disadvantages of economic cooperation

Answer the following questions

- i) Identify the characters in the cartoon who are in favour of economic cooperation. Justify.
- ii) Discuss the benefits of economic cooperation to Bhutanese economy.
- iii) What are the negative impacts of such organisations to Bhutanese economy?

8.5 Current global Economic issues related to Trade Policies and Economic Cooperation

The increasing number of organisations for economic cooperation and liberalisation of trade policies present new opportunities as well as challenges to the member countries. The inadequate systems of transportation, logistics, poor connectivity in telecommunications, financial markets, information technology, complicated regulatory environments and anticompetitive behaviour by major market players are some current issues faced by countries when they compete on a global scale.

Learning Activity 8.3: Analysing global economic issues emerging from economic cooperation

Instructions

1. Read the extract given in the box and analyse some of the economic issues related to economic cooperation.

The World Trade Organisation and a Changing Global Economy

The most obvious challenge is that the Doha Development Round—the current round of multilateral trade negotiations to further liberalise trade and reform the WTO. After a decade of talks, it still remains to be concluded. The Doha Round is focused on reducing important trade barriers in sectors, such as agriculture, industrial goods and services. This would encourage businesses around the world to specialise in the production of goods and services, achieve economies of scale, and increase their efficiency and productivity, which would allow them to deliver improved and cheaper products to global consumers. As importantly, the Doha Round is particularly focused on providing increased market access to goods and services from developing countries. In the end, the WTO estimates that the Doha Round could increase global GDP by \$150 billion per year.

However, since the launch of the Doha Round, countries have turned to free trade agreements (FTAs) in order to gain significant trade access in new markets and to explore new trade-related issues that are currently not addressed within the WTO. As more FTAs have been concluded, the central role of the WTO in liberalizing trade has been called into question. In addition, the WTO has played a very limited role in helping address other global issues related to trade, such as food security, climate change and global trade imbalance.

The WTO has failed to live up to its promises over the past decade. Followings are the areas in which WTO has failed to achieve; 1. It has failed to clarify deliberately ambiguous rules on concluding trade agreements that allow the poorest countries to be manipulated by the rich states, 2. WTO members have failed to agree how to reduce the huge subsidies paid to rich world farmers, whose overproduction continues to threaten the livelihoods of developing world farmers and 3. WTO makes most of its decisions by consensus and achieving consensus among member countries is nearly impossible.

Source: World Trade Organisation

Answer the following questions

- i) Identify economic benefits for the member countries from the extract.
- ii) Identify economic issues and challenges related to this economic cooperation.
- iii) Do you think Bhutan should join WTO? Why?

Review Questions

1. How is free trade policy different from protectionism?
2. Discuss the differences between regional and international organisations for economic cooperation.
3. Describe the importance of economic organisation to Bhutanese economy.
4. Complete the following with the most appropriate answer
 - i) Imposing high tariff on tourist by Bhutan is an example of trade policy.
 - ii) The economic organisation that links ASEAN with SARRC is
 - iii) is a trade policy that support economic globalisation and integration.
 - iv) The headquarters of the World Trade Organisation is located in

Assessments

ASSESSMENT IN ECONOMICS

Educational assessment is the process of documenting, usually in measurable terms, the outcomes of knowledge, skills, attitudes and beliefs of the learners. This includes the processes of gathering and interpreting information about the progress of their learning. In order for the assessment to be valuable to individuals and organisations, the assessment must be accurate and objective. Learners should be well informed about what will be assessed and how it will be assessed. This makes the teacher's expectations clear to the learners to set appropriate learning outcomes. Teachers can play an important role in the learners' achievement by effectively monitoring their learning and giving them constructive feedback on how they can improve. Teachers can also provide the necessary scaffolding for the needy learners as identified through the reliable assessment techniques and tools.

iii. Continuous Formative Assessment (CFA)

Formative assessment is used to provide feedback to teachers and learners, so that teaching and learning can be improved through the provision of regular feedback and remedial learning opportunities for the learners when needed. It also enables the teachers to understand what teaching methods and materials work best.

CFA facilitates the teachers to diagnose the learning needs of the learners and recognise the individual differences in learning. Through the constructive feedback provided, learners can understand their strengths and weaknesses. It also empowers them to be self-reflective learners who monitor and evaluate their own progress. CFA should happen daily throughout the teaching-learning processes of the academic year. It is NOT graded, as it is to give continuous feedbacks to the learners.

The suggested techniques for CFA for the three domains are:

- **Economic knowledge:** Debate, quiz, question answer session, etc.
- **Economic Skills:** Field trip, case analysis, Seminar Presentation
- **Economic values and attitudes:** Group work, field trip, case analysis, and peer interactions

The tools identified for CFA are checklists, anecdotal records, and rating scale.

iv. Continuous Summative Assessment (CSA)

Continuous Summative Assessment is another form of continuous assessment. It helps in determining the learner's performance and the effectiveness of instructions. The feedback from this assessment helps to improve the learners' learning and mandates the teachers to incorporate varied teaching strategies and resources to ensure quality teaching and learning in the economics classes. It empowers learners to be self-reflective learners who monitor and evaluate their own progress. In CSA, the learner's performances and achievement are graded. This ensures active participations of learners in the teaching-learning processes.

The suggested techniques for CSA for the three domains are:

- **Economic knowledge:** Class tests.
- **Economic Skills:** Project work
- **Economic values and attitudes:** Group work observation.

The main tools for CSA are rubrics, rating scale and paper pencil tests.

v. Summative Assessment (SA)

Summative assessment (SA) is conducted at the end of the first term and at the end of the year to determine the level of learning outcomes achieved by the learners. The information gathered is used by the teachers to grade learners for progression and to report to parents and other stakeholders.

The identified techniques for SA are term examinations – term I and term II examinations. The questions for the term examinations should cover all the three domains of economics learning objectives using the principles of Bloom's taxonomy.

Assessment Matrix

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

Assessment type	Formative assessment			Continuous Summative Assessment			Summative Assessment	
	Economic Knowledge	Economic Skill	Economic Values & Attitude	Economic Knowledge	Economic Skill	Economic Values & Attitude	KSA Term I	KSA Term II
Domains	Debate, Quiz, Question Answer Sessions	Field trip, Case study, Seminar Presentation	Group work, field trip, case analysis, peer interactions	Class Test	Project Work	Observation	Exams	Exams
Techniques								
Assessment tools	Checklist & Rating Scale	Rating Scale & Anecdotal notes, Rubrics	Checklist & anecdotal notes	Paper-Pencil-Test	Rubrics	Rating Scale & rubrics	Paper-pencil test	Paper-pencil test
Frequency	Maintain checklist & anecdotal records for classroom assessment	Maintain rating scale & anecdotal records for classroom assessment	Maintain checklist & anecdotal records for classroom assessment	Once in each Term	One project -assessed at every stage	Assessed at every stage	Once in a term	Once in a term
Weighting				T1=2.5 T2=2.5	T1=5 T2=5	T1=2.5 T2=2.5	T1=30	T2= 50

Weighting and period allocation

Chapters	Weighting (%)	Time Period Allocation (min)
Chapter 1- Labour Market Equilibrium and Wage Determination	15	540
Chapter 2- Factor Income	13	468
Chapter 3- The Economy of Bhutan	14	504
Chapter 4- Public Finance	11	396
Chapter 5- Economic Growth and Development	11	396
Chapter 6- Measurement of Economic Performance	12	432
Chapter 7- Balance of Payments	10	360
Chapter 8- Trade Policy	14	504
	100%	3600





Sample checklist for assessment of debate

Class:	Organises the idea points tied to the bigger idea	Presents ideas and information convincingly	Presents ideas clearly with originality	Supports the arguments with relevant facts & figures	Provides accurate counter arguments	Completes presentation on time	Demonstrates courteous body and spoken language	Teacher's Comments
Criteria →								
Name ↓								
Tshering								
Sonam								





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 & Collaboration		

Sample checklist for field trip

Key:  Yes  No Class: Criteria  Name 	Criteria							Teacher's Comments
	The student is able to:							
	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.	
Tshering								
Sonam								

Sample checklist for Peer Interaction (to test Values and Attitude)

Key:  Yes  No Class: Criteria  Name 	Criteria				Teacher's Comments
	The student				
	Initiates positive discussions in the class	Respects other ideas	Collaborates with other learners	Demonstrates sensitivity of oneself and others	
Tshering					
Sonam					

Sample Rating scale for Observation (Values & attitude)

Class:	Criteria						Teacher's Comments
	Always (4), Sometimes (3), Rarely (2), Never (1)						
Criteria Name	Punctuality	Integrity	Collaboration	Respect for Diversity	Resilience	Resource Management	
Tshering							
Sonam							

Note: Teacher to identify attributes of each parameter and record the observations

Sample Rating scale for case study

Class:	Criteria					Teacher's Comments
	The student					
Criteria Name	Clearly identifies the key issues in the case. (1-4)	Evaluates the information in the case in relation to relevant principles and theories. (1-4)	Identifies realistic and appropriate options or alternatives for rational decisions. (1-4)	Recommends solution for solving the issues presented in the case. (1-4)	Presents the analysis report with appropriate writing format. (1-4)	
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)

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)*

- | | |
|----------------------|------------|
| i. Extended response | : 50 Marks |
|----------------------|------------|

Total Marks :100 Marks