HUM 2018

Part A

1. (a) How economics is like a 'science'? Explain the idea of Economics, Microeconomics and Macroeconomics. (15)

   Answer: 2017-> 1 (a)

   (b) Explain the basic problems of an Economic system. How do the basic problems be solved?

   Answer: 2017 -> 1(b)

2. a) Pharmaceutical drugs have an inelastic demand and computer have an elastic demand. Suppose that technological advance doubles the supply of both products. What happens to the equilibrium price and quantity in each market? Which product experiences a larger change in price, which in quantity? Explain

   Answer:

   If the supply of computers increases, the price of the computer products would decrease as it has an elastic demand. And if the price decreases the demanded quantity would increase.

   On the other hand, even if the supply of medicines increases, the price would not change very much as it has an inelastic demand.

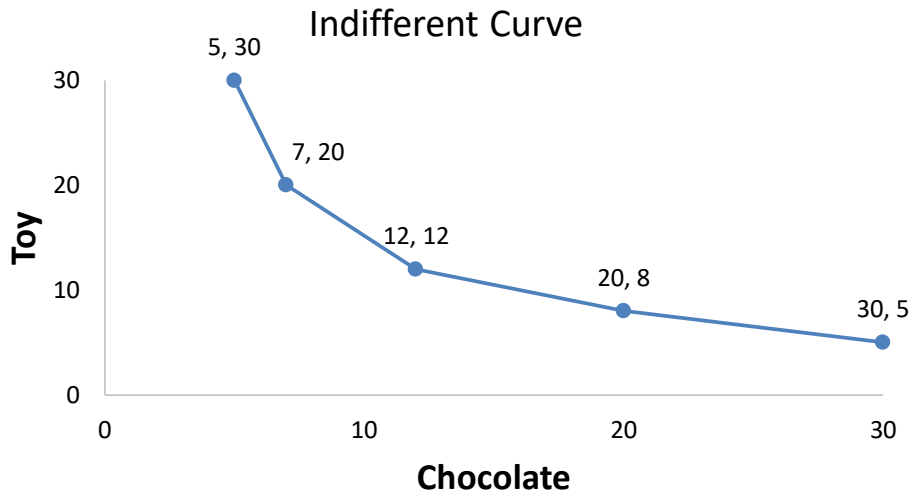
   If the demanded quantity increases when the price goes down, this demand is known as elastic demand. On the other hand, if the demanded quantity does not show very much change with the price change, this demand is known as inelastic demand.
   Now if the supply of the computer products becomes double, the price would fall. The shop has to sell almost double products than before. So, the shops give different offers and discounts which eventually decreases the price of computers. This discounted price attracts customers. So the demanded quantity would increase a lot.

   Oppositely, the demand and price of medicines remain the same despite double supply. Being an inelastic demand, people would buy medicine whatever the price it has. Medicines are lifesaving products. People must buy it to live properly. But medicines have a limited demand. That means no one takes extra medicines for amusement. They take the medicines that are prescribed by the doctor. So, even if there is a price discount on medicine, no one would buy the medicine more than before. So, the price and demand remains almost same even if the supply is doubled.

   b) What is indifference curve? Discuss the characteristics of indifference curve?

   Answer:

An indifference curve, with respect to two commodities, is a graph showing those combinations of the two commodities that leave the consumer equally satisfied



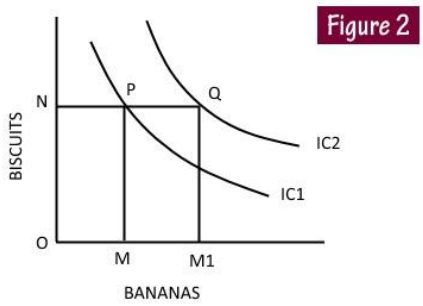
The above chart shows an indifferent chart about a child having chocolate and toy. For example if he has 5 chocolate and 30 toys he is happy. Again if he has 12 chocolate and 12 toys he is same happy as having 5 chocolate and 30 toys. All the points over the line shows same amount of happiness. So over the line, the child is indifferent (same amount of happiness). But if we consider a point below that line, that makes the child unhappy, so the point is "Not Preferred". Example: (5, 10) is a not preferred point. If the point is over the line, there is more happiness. So, those are preferred points. Example: if the child has 20 toys and 20 chocolate he would be happier. So (20, 20) is a preferred point.

For more->https://www.youtube.com/watch?v=7G4BUm7M6MY

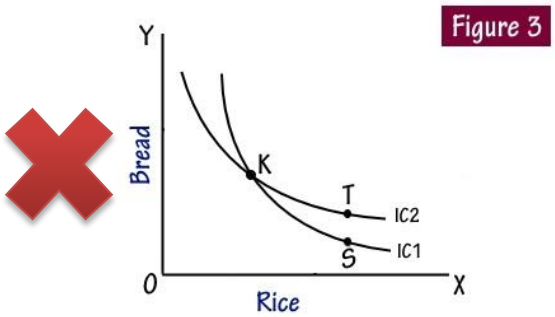
Characteristics of Indifferent curve:

I. **Indifference curves slop downward to the right**: The sloping down indifference curve indicates that when the amount of one commodity in the combination is increased, the amount of the other commodity is reduced. This must be so if the level of satisfaction is to remain constant on the same indifference curve.

II. **Every indifference curve to the right represents a higher level of satisfaction:** Every indifference curve to the right of the preceding curve indicates higher level of satisfaction and the curve to the left shows lesser satisfaction. This means that the indifference curve at a higher level from the axes shows greater satisfaction than an indifference curve at a lower level. This can be illustrated by having two indifference curves as given in Figure 2.



III. **Indifference curves cannot intersect each other**: The below figure is impossible



IV. Indifference curve will not touch the axis

V. Indifference curves are convex to the origin

3. a) Draw and explain the marginal cost and average cost curves for a typical firm. Explain why (15) the curves have the shapes that they do and why cross where they do?

Answer:

The cost to produce per unit product is known as the average cost. And the cost required to produce one additional unit is called marginal cost. The following figure shows curves for marginal cost and average cost.

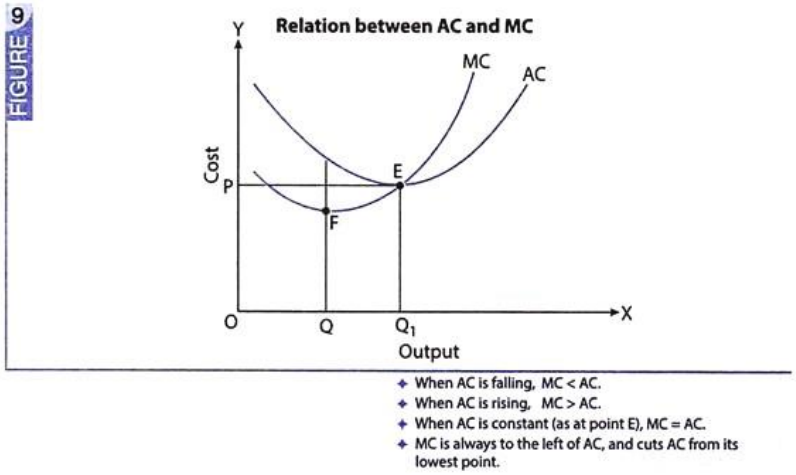


Figure: Here MC=Marginal Cost and AC is average cost

We see the average cost curve is 'U' shaped. It is because when we start a business, there are some fixed costs and variable costs. As a result, the average cost remains high. When the production increases, fixed cost remains the same but variable cost increases. So, the average cost gradually decreases to a certain level of production. Then when it reaches that particular production quantity it starts increasing again. It is because, after a certain level of production, the company has to get new warehouses, new equipment which eventually increases the cost of production again. So the average cost increases.

The marginal cost curve is also 'U' shaped, but it is less bend. It starts from below of average cost curve. As we know marginal cost is the cost to produce one additional unit, at the very beginning, the fixed cost has been spent. So, it requires a little amount to produce another unit. So it is less than the average cost. As the production increases the marginal cost also decreases to a certain level of production. After reaching that certain level, marginal cost starts increasing again because the company then has to get new employees, new inventories etc. So this curve is also 'U' shaped.

The marginal cost curve and the average total cost curve are both graphical representations of the changing cost of producing a product in business. The marginal cost measures the difference in cost of producing individual pieces or products, while the average total cost is just an overall average of how much each part cost. As the marginal cost approaches the average total cost curve, the average total cost is decreasing, because it is still producing pieces at a value less than the average total cost. However, there comes a point when average total cost is equal to marginal cost, which is where the graphs meet. After this point, marginal cost will become larger than average total cost, meaning each new product will increase the overall average cost of parts produced. At this point the average total cost will continue to increase as well.

3. (b) "High prices traditionally cause expansion in an industry, eventually bringing an end to high prices as manufacturer's prosperity" Explain, using appropriate diagrams.

Figure 6 shows that although high prices cause an industry to expand, entry into the industry eventually returns prices to the point of minimum average total cost. In the figure, the industry is originally in long-run equilibrium. The industry produces output Q_1, where supply curve S_1 intersects demand curve D_1, and the price is P_1. At this point the typical firm produces output q_1. Since price equals average total cost at that point, the firm makes zero economic profit.

Now suppose an increase in demand occurs, with the demand curve shifting to D_2. This causes "high prices" in the industry, as the price rises to P_2. It also causes the industry to increase output to Q_2. With the higher price, the typical firm increases its output from q_1 to q_2, and now makes positive profits, since price exceeds average total cost.

However, the positive profits that firms earn encourage other firms to enter the industry. Their entry, "an expansion in an industry," leads the supply curve to shift to S_3. The new equilibrium reduces the price back to P_1, "bringing an end to high prices and manufacturers' prosperity," since now firms produce q_1 and earn zero profit again. The only long-lasting effect is that industry output is Q_3, a higher level than originally.

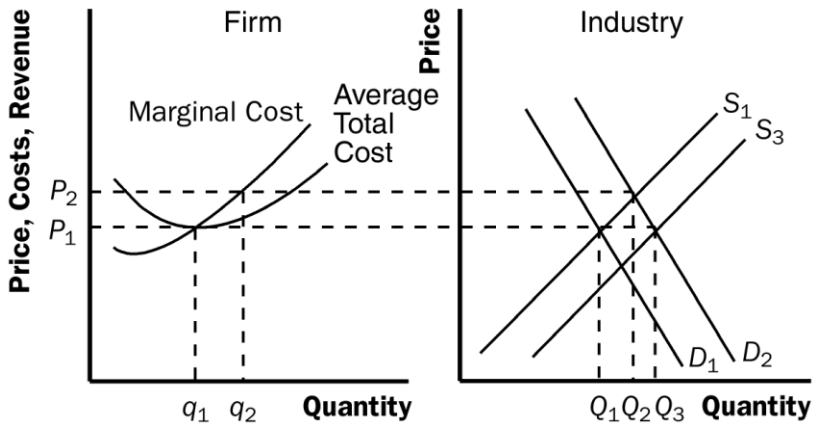


Figure 6

4. (a) What is GDP? Why does Economist use real GDP rather than nominal GDP to gauge economic wellbeing?

Answer: Total value of goods and services produced by a country with in a country border is known as Gross domestic product. GDP includes the income of the foreigners living in the country but does not include the remittance sent by the people staying outside of the country.

Real gross domestic product (GDP) is a more accurate reflection of the output of an economy than nominal GDP. By eliminating the distortion caused by inflation or deflation or by fluctuations in currency rates, real GDP gives economists a clearer idea of how the total national output of a country is growing or contracting from year to year.

Gross domestic product is the total value of all of the goods and services produced by a nation in a given period, usually monthly, quarterly, and yearly. The raw numbers include all consumer spending, government spending, investments, and exports. Total imports are deducted. Real GDP adjusts the number in order to discount the effects of inflation or deflation, and currency fluctuations up or down. To accomplish this, a fixed unit of currency is used.

Nominal GDP is also called "current dollar" GDP. It is the total in dollars (or any other currency) of goods and services consumed, plus government expenditures, investments, and exports, minus total imports.

The effects of inflation or deflation, and the fluctuations of currency, can convey a false picture of whether and how much an economy is growing or contracting over any given period of time.

That's why Economist use real GDP rather than nominal GDP to gauge economic wellbeing.

4. **(b)** What is National savings, private savings, and public savings? Describe a tax-code that might increase private savings and investment. If this policy was implemented, how would it affect the market for loanable funds?

Answer: In economics, a country's national saving is the sum of private and public saving. It equals a nation's income minus consumption and the government spending.

Public savings refer government's money left after paying all spending. Or, it equals to revenue (tax revenue) minus government spending. Also called government savings.

Private savings equal to the sum of household and business savings. And, savings from private sector plus from public sector are equal to national savings. They represent the domestic supply of loanable fund in a country. Hence, high savings means more money for investment in the economy.

Government policy refers to a principle that the government of a state adopts to hopefully enhance the direction of decisions that result in a positive result. The objective of government policies is to improve the well-being of a given unit or community. Moreover, government policies are made up of reasons why certain things are done in a given chronology. However, policies on enforcement don't become laws but can be influenced or enacted to be laws. Government policies are divided into monetary policy, supply-side policies, and fiscal policy.

Increased exemptions for individuals is the change in the tax code that might increase private savings. This means that eligibility for special accounts has to be expanded to give people an opportunity to redirect a portion of their tax money to savings. When this policy is implemented, the market for loanable funds will expand since there will be an increase in the supply of loanable funds. This is because the supply of loanable funds is dependent on public saving. When public saving increases it increases and a fall in public saving causes it to fall.

(বিদ্রঃ এই প্রশ্নটা আমি বুঝি নি... সম্ভবত সিলেবাসের বাইরে। আমি নেট থেকে যা পেয়েছি তাই কপি করে দিয়েছি)

Part B

5. a) Define accounting. State the importance of accounting?

Answer: Definition of Accounting: 2016 -> 5(a)

Importance Of accounting 2016 -> 5(d)

b) Who are the users of accounting information?

Answer: There are two types of Users for accounting information of an organization.

1. Internal Users

2. External Users

Internal Users are those who work in the company. This category includes employees, Directors, Managers, Accountant and so on. Managers and Directors use this information to decide on a business. From this accounting data, people can get an idea if an expansion of a sector could be beneficial or not. They also get a clear idea about profit, loss and expenses from this accounting data. Other employees and accountants use this data to keep track of the transactions of the company.

Another type is External Users. This category includes banks and creditors, Investors, Customers and Government Inspectors. Banks required this data to assume that if they give this company a loan, the company would be able to return it in time. An investor also uses accounting data to judge if the company can give them profit in return for their investment. Customers use this accounting data to rely on the company and also claim their future facilities promised by the company. And lastly, the Government Inspectors often inspects the organization to check whether the company is involved in any illegal activity or not. So they check these books of account to see everything is on track or not. So there is a lot of important use of accounting data.

c) Distinguish between book-keeping and accounting.

Ans: Book-keeping means keeping the financial records of an organization where Accounting is a process that involves identification, record keeping and communication of economic events of an organization to the interested users. There are some significant differences between bookkeeping and accounting. Those are:

	Bookkeeping	Accounting
Functions	Bookkeeping involves only recording the financial data.	Accounting not only records the data but also analyzes it and makes it easy for interested users.
Decision making	Management can't take a decision based on the data provided by bookkeeping	Depending on the data provided by the accountants, the management can take critical business decisions
Objective	The objective of bookkeeping is to keep the records of all financial transactions proper and systematic	The objective of accounting is to analyze the financial situation and further communicate the information to the relevant authorities
Financial Statements	Financial statements are not prepared as a part of this process	Financial statements are prepared during the accounting process
Analysis	The process of bookkeeping does not require any analysis	Accounting uses bookkeeping information to analyze the data and then convert it into reports.

(d)) Briefly describe the steps of accounting cycle.

Ans: 2016 -> 5(b)

6.

(a) What is trial balance? What are the errors that can't be detected by trial balance?

Ans: Trial Balance is the combination of All ledgers where the accounts are divided into debit and credit account columns and the sum of all debit accounts is equal to the sum of all credit accounts.

There are some errors which cannot be detected by trail balance. These are:

1. Error of Principle: Posting the amount to wrong account. Example: If accountant post the **Equipment** account to **Expense** account there would be an error of principle and it can not be detected from trail balance.
2. Error of Omission: A Transaction is totally omitted from both debit and credit side. So the debit and credit account would be same in trail balance, but there would be an error. (The total amount would be less than expected)
3. Posting to the wrong account: Suppose you bought equipment from Company A and Company B. But you wrote company A's amount in company B's account and company B's amount in company A's account. This would not affect trail balance. So, this error cannot be detected. But it is still an error.
4. Error in Original books: Suppose Cash 323 is recorded as 332 in Journal book. So this would be recorded as 332 in trail balance which will cause no error in trail balance, But it is still an error which can not be detected from Trail balance.
5. Compensating Error: If one account in the ledger is debited with Tk 500 less and another account in the ledger is credited Tk 500 less, these errors cancel themselves. That is, one error is neutralized by similar error on the opposite side.
6. **Errors of duplication**: Entering a transaction more than once.

b. What is the main purpose of preparing a trial balance?

Answer: Trail balance is mainly used to ensure that all entries made into an organization's ledger book are perfectly balanced. The Trail balance lists the ending balance in each general ledger account. Total debit and credit in the trial balance are supposed to be matched. Thus it can be checked whether there is an error or not. Moreover, the trial balance is also used to prepare different financial statements. The account balance in the trial balance is manually used to prepare the statements.

c. Preparation of Trail Balance

Particulars	Reference	Debit	Credit
Cash		43400	
Sales Return		2800	
Depreciation		700	
Advance Paid Salaries		31100	
Rent Receivable		27550	
Motor Car		41500	
Income Tax Expense		26700	
Goodwill		21100	
Loss on Fire		2650	
Sales			48500
Allowance For Bad Debit			31000
Accumulated Depreciation			19500
Interest Received			67000
Profit on sale of Furniture			11250
Bills Payable			20250
	Total:	197500	197500

8. Preparation of Statement

Other data:

Particulars	Debit	Credit
Inventory Expense	(81000+6000)-10000=77000	
Inventory Note: যেহেতু ইনভেন্টরি থেকে ইনভেন্টরি এট হ্যান্ড বেশি তাই Purchase এবং inventory যোগ করতে হবে।		77000
Depreciation on furniture	1000	
Accumulated Depreciation on furniture		1000
Depreciation on Building	7000	
Accumulated Depreciation on Building		7000
A/c Receivable	3000	
Allowance for Doubtful Account(19000-16000)		3000
Salary Expense	2000	
Salary Payable		2000
Interest Expense on Bonds	1000	
Interest Payable		1000
Selling Expense	1500	
Selling Expense payable		1500
Income tax	This would be shown in statement	

Sanju Limited

Statement of Comprehensive income

For the year ended on 30th June 2004

Particulars	Amount	Amount
Sales Revenue	200000	
Interest Income	1000	
Less Cost of Goods Sold	1500	
Gross Profit		199500
Operating Selling and Administrative Expense		
Bad Debts	6000	
Salary Expense (2000+20000)	22000	
Interest Expense (4000+1000)	5000	
Rent, Tax, Rates Expense	6000	
Depreciation on furniture	1000	
Depreciation on Building	7000	
Inventory Expense	77000	
Salesman's salaries	2000	
Freight In	7000	
Total Expense Before Income Tax		133000
Total Income Before Income tax		66500
Less Income Tax		33250
Total Profit after tax		33250
Retained Earnings		7000
Net Profit		40250

Sanju Limited

Statement of Financial Position

For the year ended on 30th June 2004

Particulars	Amount	Amount
Assets		
Account Receivable (29000+3000)	32000	
Inventory (with purchase) (87000-77000)	10000	
Furniture	10000	
Building	140000	
Cash	2000	
Total Asset		194000
Liabilities and Owner's Equity		
Bonds Payable	10000	
Accumulated Depreciation on Furniture(4000+1000)	5000	
Accumulated Depreciation on Buildings(30000+7000)	37000	
Allowance for doubtful accounts(16000+3000)	19000	
Salary Payable	2000	
Interest Payable	1000	
Selling Expense Payable	1500	
Tax Payable	33250	
Total Liabilities		108750
Owner's Equity		
Capital	60000	
Net Profit	40250	
Less Dividend	15000	
		85250
Total Liabilities and Owner's Equity		194000