

EASTERN UNIVERSITY, SRI LANKA

THIRD YEAR FIRST SEMESTER EXAMINATION IN AGRICULTURE-2011/2012

EC 3102: INTERNATIONAL ECONOMICS

Answer **ALL** questions

Time allowed: **02 hours**

1. a) Explain clearly the terms **ABSOLUTE ADVANTAGE** and **COMPARATIVE ADVANTAGE**.
- b) The Table below shows the production possibilities of **two countries X & Y** with respect to Rice and Potatoes.

Table 01: Production possibilities of countries X & Y

Goods/ Country	Country X	Country Y
Rice (kgms / labor-hour)	6	1
Potatoes (kgms/labor-hour)	1	3

Answer the following questions:

- i) With reference to the above Table, indicate in which commodity Country X and Country Y are having an **Absolute Advantage and Comparative Advantage**.
- ii) How much would Country X and Country Y **gain** if 6 kgms of Rice were exchanged for 3 kgms of Potatoes between the two countries?
2. a) Using a clearly labeled diagram show the net changes in **Consumer Surplus, Producer Surplus and Total Surplus** for a country importing a consumer good.
- b) The Figure below provides information on the imports of textiles by Country A and the effects of a tariff. It shows the world price of textiles, quantity of textiles and market price (after tariff).

Using this information answer the following:

- i) What is the level of Tariff imposed by the government on textile imports?
- ii) Calculate the Consumer Surplus, Producer Surplus and Government Revenue before and after the Tariff was imposed on imports of textiles.
- iii) Estimate the net gain or loss to Consumers and Producers due to the import tariff.