

EASTERN UNIVERSITY, SRI LANKA

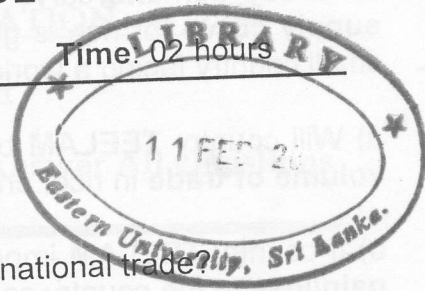
FINAL YEAR, FIRST SEMESTER EXAMINATION IN AGRICULTURE- 2008/2009

AEC 4109: INTERNATIONAL TRADE

Answer ALL questions (Parts A and B)

Time: 02 hours

Part A



1. a) What is meant by "International Trade"?
- b).What is the gains / benefits a nation obtains from international trade?
- c).Explain briefly the term "AUTARKY".
- d) What is the "Balance of Trade"?
- e). Explain briefly the "Terms of Trade" of a nation. (5X5 marks = 25)

2. a).What is meant by "Mercantilism"?
- b).Explain briefly the following instruments of trade policy:
 - i) Tariffs, and
 - ii) Quotas.
- c).What is 'Globalization', and why is it important in the World Economy?
- d). Description of a **trade theory** is given below. "A country that is relatively labor abundant (**capital abundant**) should specialize in the production and export of that product which is relatively labor intensive (**capital intensive**)". Identify who developed this theory, and briefly explain the theory.
- e). Briefly outline any **two (2) major functions** of the World Trade Organization (WTO).

(5X5 marks = 25)

(contd.....2)

Part B

3. Country **TEELAM** produces and consumes two goods, **Rice** and **Manioc**. Their **domestic demand** curve for rice is given by the equation: $P = 100 - Q$. The domestic **supply curve** for rice is given by the equation: $P = 25 + 0.5Q$. Country **TEELAM** is a small country facing a world price for rice of **\$30 per MT**.

- a) Will country **TEELAM** be importing or exporting rice? Calculate country **TEELAM**'s **volume of trade** in rice, and the **net gain/loss** to the country. (8 marks)
- b) If country **TEELAM** imposes a **tariff of \$10/MT** on imports of rice, calculate the **net gain/loss** to the country as a result of the tariff. (8 marks)
- c) If country **TEELAM** was a large country and by imposing the tariff, decreases the world price to **\$25/MT**, calculate the **net gain/loss** to the country as a result of the tariff. (9 marks)

4. Answer the following questions based on the data in the table below:jk

Country	Labour hours Required To Produce 1 unit of:	
	Cars	Eggs
Rangi	8	2
Freeda	3	1

- a) Which country has the **Absolute Advantage** or **Comparative Advantage** in producing Cars? Eggs? (10 marks)
- b) Determine the range within which the relative trading price of eggs can fall for trade to be beneficial to both countries. (10 marks)
- c) If the labor supply in **Rangi** is 8000 hours and the labor supply in **Freeda** is 6000 hours, draw their respective **Production Possibility Frontiers (PPF)**. (Put cars on the vertical axis.) (5 marks)
