EASTERN UNIVERSITY, SRI LANKA

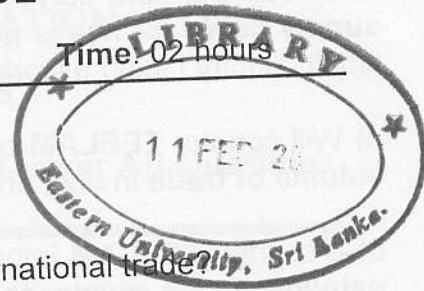## FINAL YEAR, FIRST SEMESTER EXAMINATION IN AGRICULTURE- 2008/2009

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)

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PS/ IT