EASTERN UNIVERSITY, SRI LANKA

FINAL YEAR, FIRST SEMESTER EXAMINATION IN AGRICULTURE- 2011/12

AEC 4109: INTERNATIONAL TRADE

Answer **ALL** questions (Parts **A** and **B**) **Time allowed**: 02 hours

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Part A

1. a) What is International Trade, and why is it important to nations?

   b) Differentiate between '**Free Trade' and 'Autarky'**.

   c) **'Mercantilism' Trade Theory** states that a government can improve the well-being of the country by encouraging exports and restricting imports. Is this possible and good for a nation?

   d) What are Tariffs? Why are tariffs imposed by a government on imports or exports?

2. a).Briefly explain **Vernon's "Product Life-Cycle"** Theory of Trade, using an appropriate example.

   b) Theory of **Relative Factor Endowments (Heckscher-Ohlin Model)** states that a country has a comparative advantage in producing products that intensively uses abundant factors of production available. Briefly explain the above.

   c) Define what an **Offer Curve** is for a nation. Clearly explain how a nation's Offer Curve is derived.

   d) Define the **Edgeworth Box**. How is the Edgeworth Box derived for two consumers purchasing two goods for consumption.

(contd.....2)

Part B

3. a) Explain briefly the terms "**Absolute Advantage**" and "**Comparative Advantage**".

b) Two nations (A & B) are producing clothes and grains. Assume that labour the only cost of production.

Labour cost (hours) of production for one unit output is shown in the Table bel

Country	Clothes	Grains
A	50	100
B	300	100

Using the above data, identify the following;

i) Which nation/s has an Absolute Advantage in producing clothes or gra Explain briefly.

ii) Which nation/s has a Comparative Advantage in producing clothes or grains? Explain briefly.

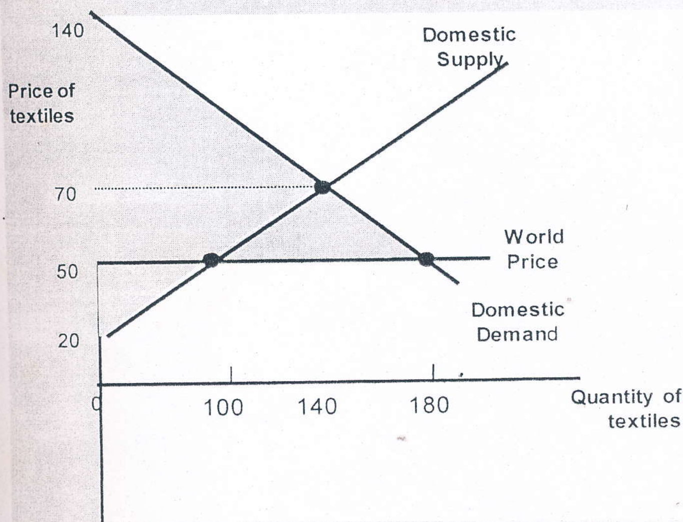
4. a). What is a '**Producer Surplus**' and a '**Consumer Surplus**'?

b) **Figure 1** below shows the **domestic market** situation in a country produc textiles, which later decides in importing textiles from the world market.

(....contd.p.3)

Figure 1

International trade in an importing country



The domestic price of textiles **before imports** and **after imports** are Rs.70 (domestic price) and Rs.50 (world price) respectively. Using the above information answer the following:

i) Calculate the Consumer Surplus, Producer Surplus and Total Surplus **before trade** occurred.

ii) Calculate the Consumer Surplus, Producer Surplus and Total Surplus **after trade** had occurred.

iii) Estimate the **net change** in Consumer Surplus, Producer Surplus and Total Surplus due to trade.

(Clearly indicate all calculations done in the above estimations)

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