

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         |

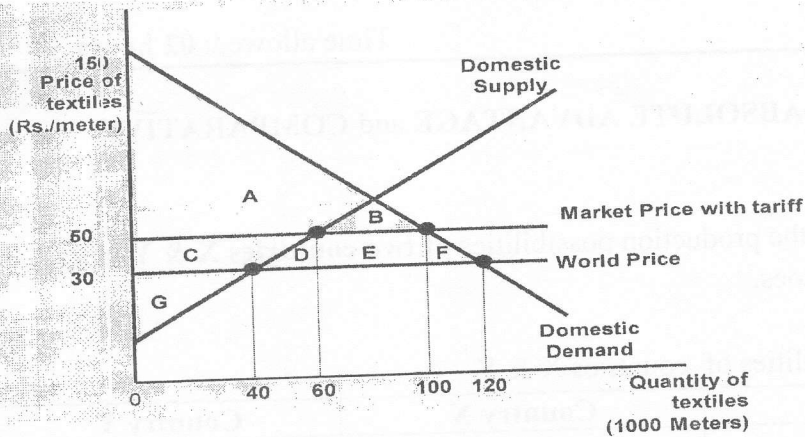
Answer the following questions:

- 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.

Figure Effects of a tariff –Importing Country



- 3 a) Using **Partial Equilibrium Analysis** and the equilibrium-relative commodity price explain graphically how trade occurs between two nations A and B.
- b) What is an **OFFER CURVE**? Graphically show how an Offer Curve is derived.
4. a) What is International Finance?
- b) Why is International Finance important and what are the main components of Global Finance?
- c) Write **SHORT NOTES** on any **THREE (03)** the following:
- i) Exchange Rate
  - ii) Terms of Trade
  - iii) Balance of Payments
  - iv) Exports and Imports of Sri Lanka

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