BIRLA INSTITUTE OF TECHNOLOGY & SCIENCE, PILANI

FIRST SEMESTER 2016-2017

Midsemester Test (Closed Book)

Course No.	**: ECON F311**	Max. Marks	**: 30.00**
Course Title	**: International Economics**	Duration	**: 90 mints**
Date	**: 08/10/2016**	Weightage	**: 30%**

Q1. The table given below is alternative combination of Sugar and Cloth that Portugal and Sweden can produce per year:

Sweden		Portugal	
S	C	S	C
50	0	120	0
40	30	90	20
30	60	60	40
20	90	30	60
10	120	0	80
0	150		

a) Assume that prices equal the cost of production, what is the relative price of Sugar in Portugal and Sweden? Again what is the relative price of cloth in Portugal and Sweden?

b) Indicate in which commodity Portugal and Sweden has comparative advantage and the limits within which mutual advantageous trade can take place between Portugal and Sweden

c) Derive the combined supply curve of sugar and cloth. **[5.00]**

Q2. Explain briefly the following concepts with the help of a suitable graph

a) The difference between gains from exchange and gain from specialization.

b) Meaning of Reciprocal demand curve and derivation of it

c) Demand reversal Situation **[6.00]**

Q3. International trade in goods brings about equalization of factor prices between the countries even in the case of immobility of factor of production among the countries. It is in this sense that we argue that international trade in goods, is a substitute for international movement of labor and capital. Prove the above statements with **necessary assumptions and with the help of edgeworth box diagram.** **[6.00]**

Q4. State and explain Rybczynski theorem with the help of **edgeworth box diagram.** **[6.00]**

Q5. Suppose that India's demand and supply for wheat is Q = 100 - 20P and Q = 20 + 20P. Similarly SriLanka's demand and supply for wheat is Q = 80 - 20P and Q = 40 + 20P. In the above case, P represents the absolute price of wheat in terms of rupees.

a) Which country has a comparative advantage in the production of wheat? Substantiate your answer.

b) Now allow Sri Lanka and India to trade with each other, at zero transportation cost. What is the volume of trade between these countries and how many units are produced and consumed in each country?

c) Now suppose the cost of transporting wheat between the two countries is 0.50 what is the impact of transportation on the units of wheat being consumed, produced and volume of trade between both the countries?

d) Assume that the importing country is a small nation (with zero transportation cost) and consider an import tariff of 0.25 on wheat imports. What will be the effects on consumer welfare, producer welfare, and government revenue? Does this policy raise national welfare? Substantiate your answer.

[7.00]

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