**International Trade Tutorial I 27.01.2023**

**Time: 2 hrs 9-11 am**

1. Consider the equation of the demand curve for precious stones in India given by the following form:

D = 350 – (P/2) where P is the price of stones and D is the domestic quantity demanded for precious stones.

Furthermore, suppose that the equation of the supply curve for precious stones in India takes the following form:

S = -200 +5p, where S is the domestic quantity supplied of stones.

a) What is the equilibrium price and quantity of stones in the domestic market of India if there is no international exchange of such goods? 2

b) If suppose now India liberalizes her economy so that the world market price of Rs. 120 is also the domestic price in India. Will India now export or import precious stones with the rest of world? If so, find out the amount of such exports or imports. 3

2. Home’s demand curve for wheat is 5x2=10

D = 100−20P.

Its supply curve is

S = 20+20P.

(a)Derive Home’s import demand function.

(b)What would the price of wheat be in the absence of trade?

Now add Foreign, which has a demand curve D∗ = 80−20P, and a supply curve S∗ = 40+20P.

(c) Derive Foreign’s export supply function.

(d) Find the price of wheat that would prevail in Foreign in the absence of trade.

(e) Now allow Foreign and Home to trade with each other, at zero transportation cost. Find out the world price and volume of trade?

P.T.O.

3. Consider an economy that produces two goods G and T. The production possibility frontier (PPF) is given by:



where Gp and Tp are the quantities produced of the two goods G and T, respectively. The community indifference curve (CIC) is of the following form:



where Gc and Tc are the quantities consumed of the two goods G and T, respectively.

Let PG and PT be the respective prices of the two goods G and T. Determine the traded quantities of the two goods. (Hint. Either of the two goods G and T can be exported and imported depending on the relative price, say . Thus, you have to find out the magnitudes of excess demand or excess supply of the two goods using the trade balance condition). 10