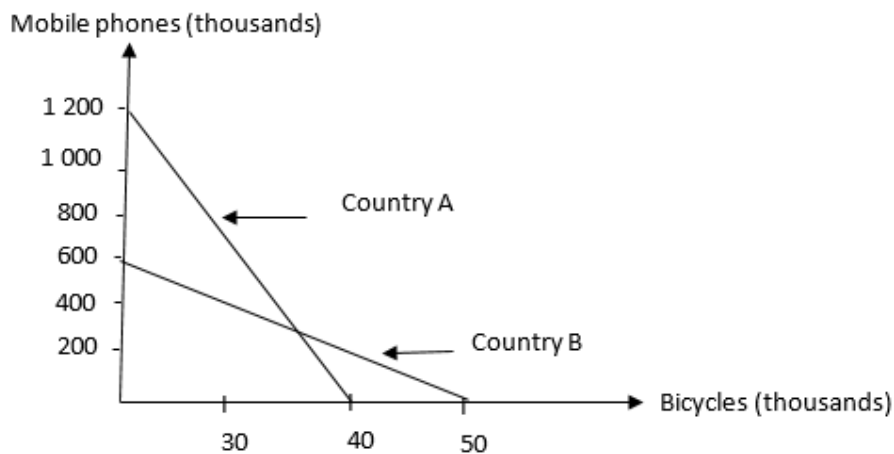


**2017 A/L**

- I. The following diagram shows production possibilities curves for country A and country B producing mobile phones and bicycles.



- What is the opportunity cost of producing a bicycle in each country? (2 marks)
- Which country has a comparative advantage in the production of mobile phones? (2 marks)
- For mutually beneficial trade to occur, what should be the rate of exchange between mobile phones and bicycles? (2 marks)

**2016 A/L**

- Distinguish between comparative advantage and absolute advantage.

**2014 A/L**

- Sri Lanka and China produce garments and machinery. The table below illustrates the hypothetical output quantities of the two goods produced by the two countries using the given amount of inputs.

Country	Machinery (Units)	Garments (Units)
China	50	150
Sri Lanka	10	50

Answer part (i) and (ii) using the data given in the above table.

- Which country should specialize in which good? Explain.
- What is the terms of trade ratio between the two countries after specialization?

**2013 A/L**

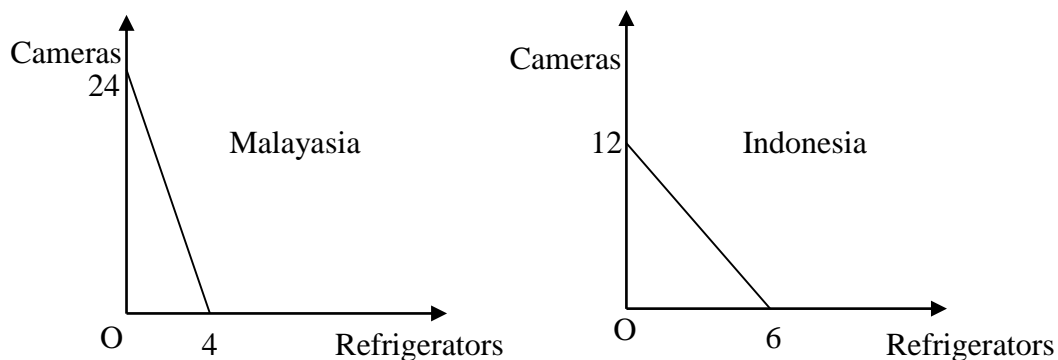
3. Distinguish between absolute advantage and comparative advantage in production. Illustrate your answer giving numerical examples.

**2012A/L**

4. What are the sources of comparative advantage?

**2010 A/L**

5. The following two production possibilities curves show the alternative outputs which can be produced with a composite resource unit in Malaysia and in Indonesia.



For mutually beneficial trade to occur, the rate of exchange between cameras and refrigerators should be

6. The following Table describes the number of meters of cloth and units of bicycles that can be produced with a week's worth of labour in Japan and in Korea. Assume that no other inputs are needed.

Commodity	Japan	Korea
Cloth (metres)	12	8
Bicycles (units)	6	2

- If there is no trade, what is the price of a bicycle in terms of cloth in Japan and in Korea?
- Which country has the comparative advantage in the production of cloth? Explain your answer.
- If the two countries start trading with each other, which country will specialize and export which good?
- What can be said about the rate of exchange at which trade will take place?

**2009 A/L**

7. The following table depicts hypothetical production possibilities for country A and country B each producing food and cloth.

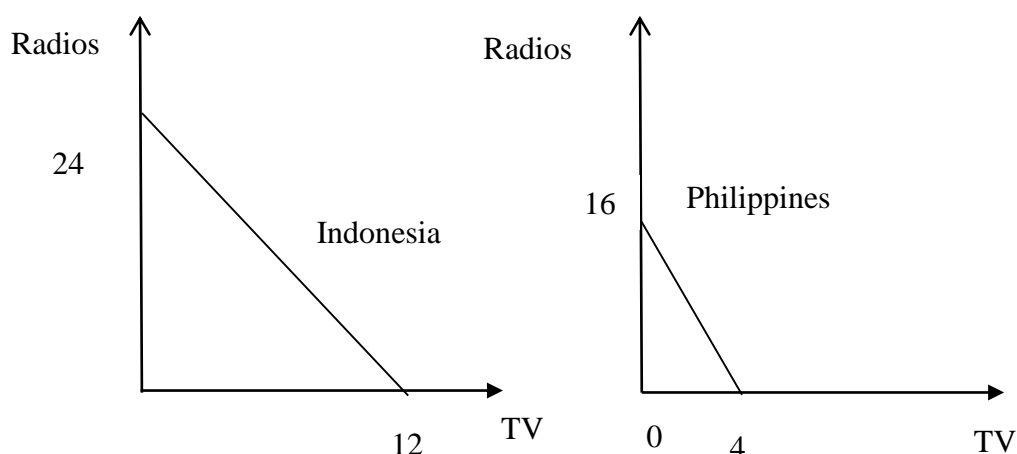
Country A		Country B	
Food (units)	Cloth (units)	Food (units)	Cloth (units)
0	500	0	800
200	400	100	600
400		200	
600		300	
800		400	
1 000		-	-

- (i) Assuming that there is a fixed opportunity cost in each country, complete the table.
- (ii) Draw the production possibility curves for the two countries on separate graphs.  
If the two countries are engaged in trade, which good does each country specialize in? Explain.
- (iii) If 1 unit of food trades for 1 unit of cloth, draw the consumption possibility frontiers for each country on the graphs drawn by you earlier.
- (iv) Before trade, assume that country A consumed 600 units of food and 200 units of cloth. After trade, how many units of cloth can be consumed by country A, if it continues to consume 600 units of food?

## 2008 A/L

8.

The following production possibilities graphs show the alternative outputs which can be produced in Indonesia and Philippines with a given amount of composite resource unit.



- (i) Which country has the comparative advantage in the production of TVs? Give Reasons for your answer.
- (ii) For mutually beneficial trade between Indonesia and Philippines to occur, what should be the rate of exchange between Radios and TVs?

**MOCK Questions**

1. Sri Lanka and China produce garments and machinery. The table below illustrates the hypothetical output quantities of the two goods produced by the two countries using the given amount of inputs.

Country	Machinery (Units)	Garments (Units)
China	30	120
Sri Lanka	10	50

Answer the followings using the data given in the above table.

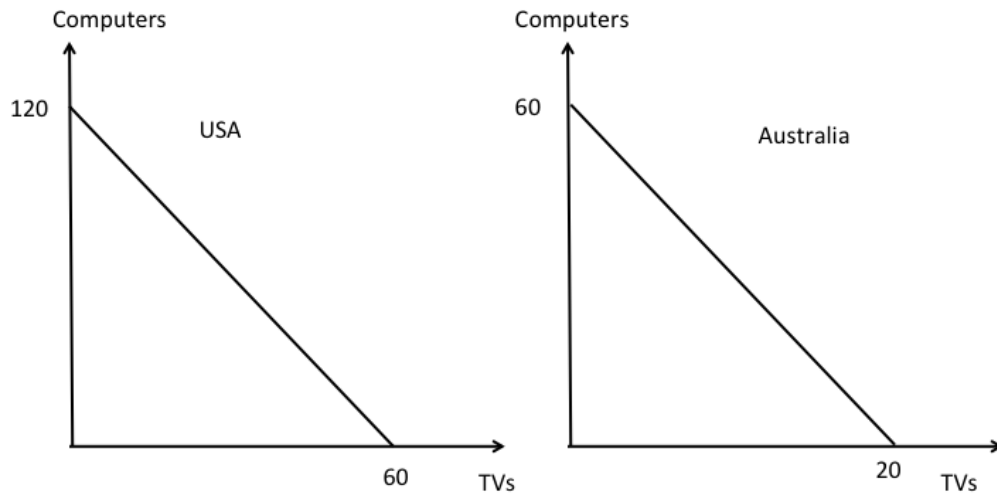
- Which country has absolute advantage for machinery and which country has absolute advantage for garments.
  - Draw production possibility curve and show how each country operates without specialization and mutually beneficial trade
  - What is the internal rate of exchange of machinery in China and Sri Lanka.
  - Based on comparative advantage which country should specialize in which good? Explain.
  - What is the terms of trade ratio between the two countries after specialization?
  - Draw the production possibility curve and consumption possibility curve of both countries considering mutually beneficial exchange rate as 1 machine = 4 Garments.
2. India and UK produce meat and wheat. The table below illustrates the hypothetical input quantities required to produce one composite unit from each product by the two countries.

Country	India	UK
Meat	10	5
Wheat	20	15

Answer the followings using the data given in the above table.

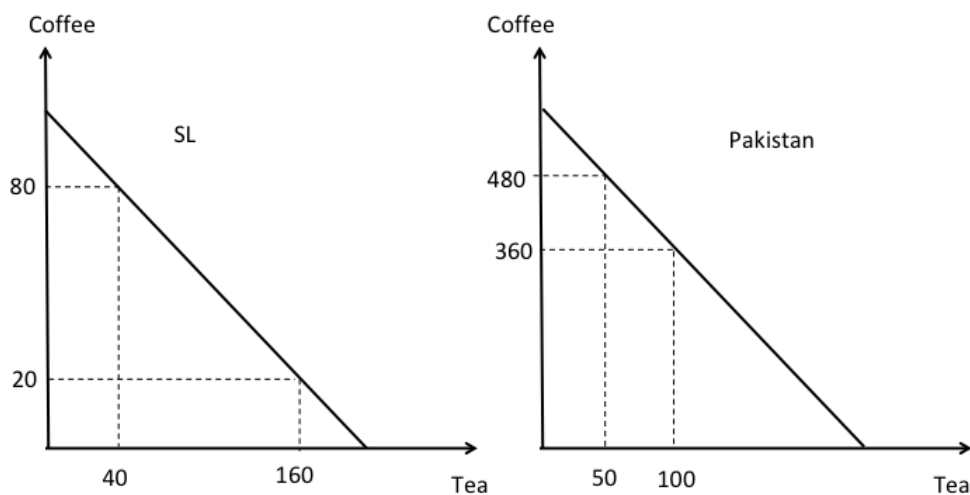
- Which country has absolute advantage for meat and which country has absolute advantage for wheat.
- What is the internal rate of exchange of meat in India and UK
- What is the internal rate of exchange of wheat in India and UK
- Based on comparative advantage which country should specialize in which good? Explain.
- What is the mutually beneficial exchange rate between the two countries after specialization?

3. Following diagram shows the production possibility of USA and Australia.



- Which country has absolute advantage for computers and which country has absolute advantage for TV.
- What is the internal rate of exchange of TV in USA and Australia?
- What is the internal rate of exchange of computers in USA and Australia?
- Based on comparative advantage which country should specialize in which good? Explain.
- What is the mutually beneficial exchange rate between the two countries after specialization?

4. Following diagram shows the production possibility of SL and Pakistan.



- Which country has absolute advantage for Tea and which country has absolute advantage for Coffee.
- What is the internal rate of exchange of Tea in SL and Pakistan?
- What is the internal rate of exchange of Coffee in SL and Pakistan?
- Based on comparative advantage which country should specialize in which good? Explain.
- What is the mutually beneficial exchange rate between the two countries after specialization?

5. Pakistan and India produce paddy and coffee. The table below illustrates the hypothetical output quantities of the two goods produced by the two countries using the given amount of inputs.

	Pakistan	India
Paddy	40	100
Coconut	80	120

Answer the followings using the data given in the above table.

- Which country has absolute advantage for paddy and which country has absolute advantage for coconut.
  - What is the internal rate of exchange of paddy in Pakistan and India?
  - What is the internal rate of exchange of coconut in Pakistan and India?
  - Based on comparative advantage which country should specialize in which good? Explain.
  - What is the mutually beneficial trade ratio between the two countries after specialization?
  - Draw the production possibility curve and consumption possibility curve of both countries considering mutually beneficial exchange rate as 1 Paddy = 1.5 Coconut.
6. UK and USA produce iPods and MacBook. The table below illustrates the hypothetical output quantities of the two goods produced by the two countries using the given amount of inputs.

	iPods	MacBook
UK	180	120
USA	60	30

Answer the followings using the data given in the above table.

- Which country has absolute advantage for iPods and which country has absolute advantage for MacBook.
  - What is the internal rate of exchange of iPod in UK and USA?
  - What is the internal rate of exchange of MacBook in UK and USA?
  - Based on comparative advantage which country should specialize in which good? Explain.
  - What is the mutually beneficial trade ratio between the two countries after specialization?
  - Draw the production possibility curve and consumption possibility curve of both countries considering mutually beneficial exchange rate as 1 MacBook = 1.5 iPods.
7. Iraq and Iran produce TV and Radio. The table below illustrates the hypothetical labour quantities required to produce one composite unit from each product by the two countries.

Country	Iran	Iraq
TV	5	4
Radio	15	6

Answer the followings using the data given in the above table.

- a. Which country has absolute advantage for TV and which country has absolute advantage for Radio.
  - b. What is the internal price of TV in Iran and Iraq
  - c. What is the internal price of Radio in Iran and Iraq
  - d. Based on comparative advantage which country should specialize in which good? Explain.
  - e. What is the mutually beneficial terms of trade rate between the two countries after specialization?
  - f. If both countries have 300 labour hours each and mutually beneficial exchange rate is 1 radio = 2 TVs, draw the production possibility curve and consumption possibility curve of both countries
8. China and Bangladesh produce garments and toys. The table below illustrates the hypothetical labour quantities required to produce one composite unit from each product by the two countries.

Country	Garments	Toys
Bangladesh	16	4
China	12	9

Answer the followings using the data given in the above table.

- a. Which country has absolute advantage for garments and which country has absolute advantage for toys.
- b. What is the internal price of garments in China and Bangladesh
- c. What is the internal price of toys in Iran China and Bangladesh
- d. Based on comparative advantage which country should specialize in which good? Explain.
- e. What is the mutually beneficial terms of trade rate between the two countries after specialization?