

Internal Assessment

B.A.(Honours) Economics Semester 5

Question 1. Suppose in an hour, 10 kg of rice and 5 meter of cloth is produced in India, and 5 kg and 2 meter in Thailand. Using opportunity costs, explain which country should export cloth and which should export rice? (2 marks)

Question 2.

Table 1: Home and Foreign Unit Labor Requirements

Good	Home Unit Labor Requirement a_{Li}	Foreign Unit Labor Requirement a_{Li}^*	$(\frac{a_{Li}^*}{a_{Li}})$
Apples	1	10	10
Bananas	5	40	8
Caviar	3	12	4
Dates	6	12	2
Enchiladas	12	9	0.75

If Home wage rate w is three times that of Foreign wage rate w^* , list the goods exported and imported by each country? Also explain why the nations are better off by engaging in international trade rather than producing all goods by themselves in this multi-good model? (5 marks)

Question 3. Norway's fishing sector uses boats and labour as factors of production and its wine sector uses land and labour as factors of production and assume Norway consists of only these two sectors. Explain using specific factors model, the effect of increase in the relative price of wine on the factor incomes of the owners of land, labour and boats in Norway. (5 marks)

