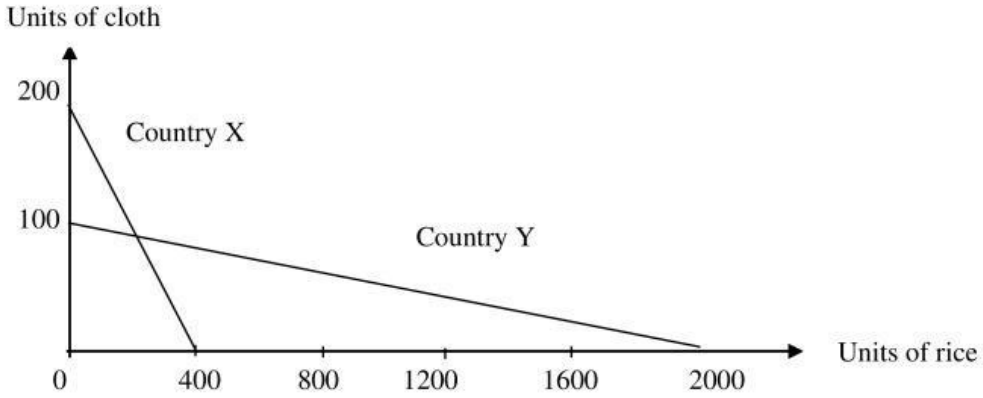
Chapter 09
International Trade Past Paper Questions

Comparative advantages and absolute advantages

1. The diagram shows the amount of rice and clothing that can be produced in countries X and Y with given quantity of resources



What does the diagram indicate about the production of two commodities?

1) Country X has both an absolute and comparative advantage in clothing.
2) Country X as comparative advantage in rice and absolute advantage in clothing.
3) Country Y has comparative advantage in clothing and absolute advantage in rice.
4) Country Y has a comparative advantage in rice and absolute advantage in clothing.
5) Country Y has both absolute and comparative advantage in clothing.

(2011 A/L Economics -I MCQ 38)

2. Table below indicates the number of labour hours required in countries country x and y to produce one unit of food or one unit of clothing.

Country	Food	Clothing
X	20 hours	50 hours
Y	10 hours	20 hours

Given this information which of the following statement is correct?

1) X has a comparative advantage in production of both food and clothing.
2) Y has the comparative advantage in production of both food and clothing.
3) X has a comparative advantage in food production, whereas Y has comparative advantage and clothing production.
4) Y has a comparative advantage in food production, whereas X has a comparative advantage in clothing production.
5) Neither country has a comparative advantage in production of either good.

(2012 A/L Economics -I MCQ 36)

3. If country A has absolute advantage in production of everything,

1) No trade will take place because country A will have a comparative advantage in everything.
2) No trade will take place because no country will have a comparative advantage in anything.
3) Trade will probably take place and all countries will gain.
4) Trade will probably take place, but country A will not gain.
5) Trade will probably take place, but country A will be the only one to gain.

(2012 A/L Economics -I MCQ 39)

4. The table below shows number of goods X and Y which the two countries A and B produce using a composite resource unit.

Product	Country A	Country B
Good X	100	300
Good Y	200	400

Assume that each country specializes in the product in which it has comparative advantage. The rate of exchange suitable for each country to gain from trade would be,

1) 1X = 1Y 2) 1X = 1.3 Y 3) 1X = 1.5Y 4) 1X = 2Y 5) 1X = 3Y

(2013 A/L Economics -I MCQ 36)

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5. Which of the following is not a reason for trade among countries?
1) Differences in factor endowment among countries.
2) Differences in foreign exchange rate among countries.
3) Differences in technology know- how among countries.
4) existence of returns to scale in production.
5) Differences in consumer taste and preferences among countries. *(2014 A/L Economics -I MCQ 40)*

6. The output quantities of two products that can be produced in Sri Lanka and India using a given amount of inputs are illustrated in the table below:

Good	Sri Lanka	India
Tea (Units)	100	90
Garments (Units)	120	100

The correct statement according to the above information is
1) India has the comparative advantage in tea production.
2) Sri Lanka has the comparative advantage in garment production.
3) India has the absolute advantage in tea production.
4) Both countries have the comparative advantage in the production of both goods.
5) India does not have the comparative advantage in both goods. *(2014 A/L Economics -I MCQ 43)*

7. The major determinants of comparative advantage among countries include all of the following except,
1) per capita income 2) climate 3) labour force skills
4) capital per worker 5) geographical location. *(2015 A/L Economics -I MCQ 42)*

8. The table below shows the number of bicycles and tractors which can be produced within a composite resource unit in country A and B

Product	Country A	Country B
Tractors	20	2
Bicycles	60	10

Assume that each country specializes in the production in which it has a comparative advantage. For mutually beneficial trade to occur, the rate of exchange between tractors and bicycles should be
1) less than 3 bicycles per tractor.
2) between 3 and 5 bicycles per tractor
3) between 2 and 60 bicycles per tractor
4) between 6 and 10 bicycles per tractor
5) more than 10 bicycles per tractor. *(2015 A/L Economics -I MCQ 43*

9. Which of the following is correct of a country that does not have an absolute advance in producing good or service?
1) It cannot have a comparative advantage either.
2) It will have a comparative advantage in the production of the good or service in which it has a lower opportunity cost.
3) It will export raw materials and import finished products.
4) no country will want to trade with this country because it is not cost effective to do so.
5) the international value of its currency will be fixed *(2016 A/L Economics -I MCQ 39)*

10. Which of the following statements about comparative advantages correct?
1) Comparative advantage is based solely on differences in climate.
2) Comparative advantage is based solely on differences in factor endowment.
3) To have a comparative advantage, a country must also have an absolute advantage.
4) A country with a rising price level will lose any existing comparative advantage.
5) A comparative advantage for certain product may be created by prudential policies of the government. *(2016A/L Economics -I MCQ 41)*

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11. In Japan, it takes 50 labour hours to produce one unit of cloth and 100 labour hours to produce one unit of rice. In Thailand, it takes 200 labour hours to produce one unit of cloth and 200 labour hours to produce one unit of rice. Which of the following statements is true for this situation?

1) Japan has a comparative advantage in the production of rice.
2) Thailand has an absolute advantage in the production of rice.
3) Japan has a comparative advantage in the production of cloth.
4) Thailand has a comparative advantage in the production of cloth.
5) Both countries should produce cloth.

(2017A/L Economics -I MCQ 41)

12. International trade permits a country to

1) Produce and consume beyond a production possibilities boundary.
2) Shifts production possibilities boundary outward.
3) Lower the per unit production costs of all goods which is producing.
4) Expand its production possibilities while holding constant its consumption possibilities.
5) Consume beyond its production possibilities boundary.

(2017A/L Economics -I MCQ 41)

13. Comparative advantages means that one country can produce

1) More of a certain product than another country.
2) A certain product at lower marginal cost than another country.
3) A certain product at lower long run average cost than another country.
4) A certain product at lower opportunity cost than another country.
5) More of a certain product than another product. *(2019A/L Economics -I MCQ 36 New)*

14. The table below shows the ability of the country X and country Y to produce rice and coffee when they use all of their resources for that product.

Country	Maximum output of rice. (Units)	Maximum output of Coffee (Units)
X	5000	5000
Y	10000	5000

What is the correct statement regarding the cost advantages of two countries?

1) Country X has a comparative advantage in the production of rice.
2) Country X has a comparative advantage in the production of coffee.
3) Country X has an absolute advantage in the production of coffee.
4) Country Y has an absolute advantage in the production of coffee.
5) Country Y has a comparative advantage in the production of coffee.

(2019A/L Economics -I MCQ 37 New)

15. According to the principle of comparative advantage, worldwide output and consumption levels will be highest when goods are produced in countries where which of the following is true?

1) Opportunity costs are lowest.
2) Absolute advantages are highest
3) The balance of trade is in a surplus.
4) The exchange rate is falling.
5) Transportation costs are almost zero. *(2020 A/L Economics -I MCQ 36 New)*

16. In country A, it takes 5 labour hours to produce one unit of cloth and 10 labour hours to produce one unit of rice. In country B, It takes 7 labour hours to produce one unit of cloth and 21 labour hours to produce one unit of rice. If the two countries have decided to specialize according to each country's comparative advantage, at what exchange rate would the country A be willing to take with country B?

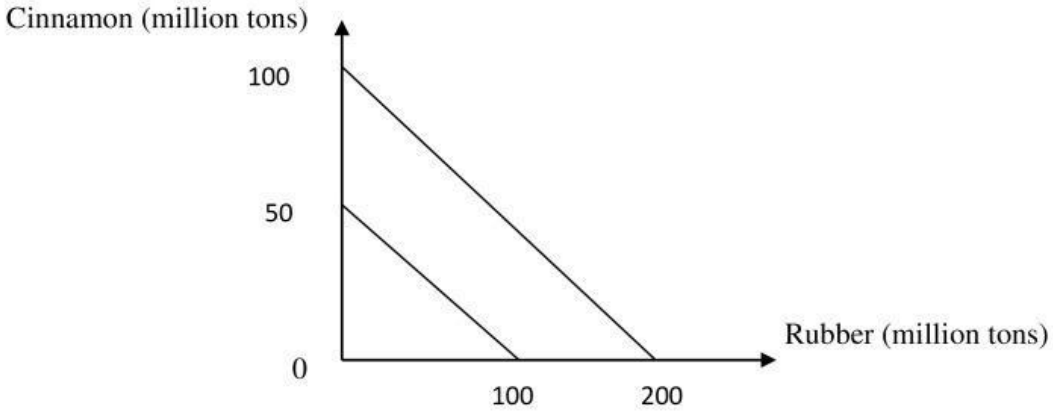
1) More than 2 units of cloth per unit of rice
2) More than 2 units of rice per unit of cloth
3) More than 3 units of cloth per unit of rice
4) More than 3 units of rice per unit of cloth
5) More than 0.5 units of rice per unit of cloth *(2020 A/L Economics -I MCQ 37 New)*

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17. Comparative advantage means that one country can produce

1) even beyond its production possibilities boundary.
2) More of one product than another country.
3) one product at lower marginal cost than other country.
4) one product at lower average total cost than other country.
5) one product at low opportunity cost than other country. *(2020 A/L Economics -I MCQ 38 Old)*

18. The diagram shows production possibility curve for two countries, A and B. Country A can produce 100 million tons of rubber or 50 million tons of cinnamon. Country B can produce 200 million tons of Rubber or 100 million tons of cinnamon.

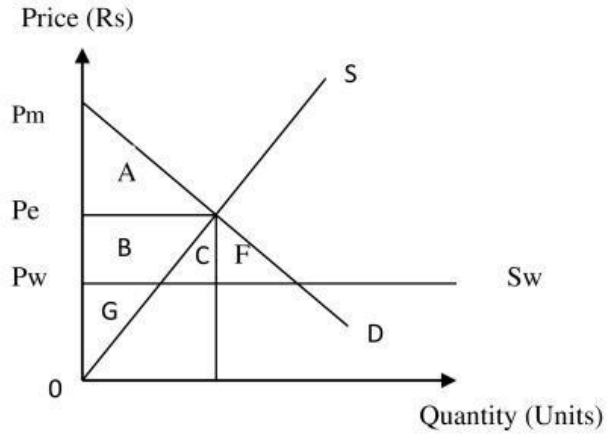


According to the theory of comparative advantage,

1) Both countries can benefit by specialization.
2) Country B has higher opportunity cost than country A in producing Cinnamon.
3) Country A has the higher opportunity cost than country B in producing Cinnamon.
4) Country B exports cinnamon to country A.
5) trade between country A and B cannot take place. *(2021 A/L Economics -I MCQ 36)*

Protectionism

19. Market equilibrium and import supply of a particular good is shown in the following figure.



According to this figure the area that shows the additional benefit to the society due to the import supply is,

1) A and B 2) B and C 3) B and G 4) C and F 5) C,G and F

(2014 A/L Economics -I MCQ 39)

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20. Which **two** of the following arguments are most likely to be used to justify protectionism?

A - To protect high cost domestic industries.
B - To protect strategically important industries.
C - To protect infant industries.
D - To protect environmental standards.
E - To maximize government tax revenue.

(1) A and D 2) B and C 3) B and D 4) C and D 5) D and E

(2020 A/L Econ- New -I MCQ 38)

Terms of trade

21. Consider the following table.

Year	Export Price Index	Terms of Trade
1	100	100
2	90	80
3	80	60

From the table one possible conclusion that can be drawn over the period shown is

1) Export prices were rising
2) Import prices were rising
3) Both export and import prices were falling.
4) There was an improvement in the terms of trade.
5) More imports could be purchased with the same quantity of exports.

(2011 A/L Economics -I MCQ 40)

22. A country's terms of trade currently stands at 150 (base year 2010 = 100). Since 2010 the average price the country has received for its exports has increased by 20%. Thus, average price it has paid for its imports should have changed by

1) -50% 2) -25% 3) -20% 4) +20% 5) +25%

(2013 A/L Economics -I MCQ 39)

23. Which is only combination of price changes that must result in a deterioration in a country's terms of trade?

	Average price of exports	Average price of imports
1)	Falls	Rises
2)	Falls	Falls
3)	Rises	Falls
4)	Rises	Rises
5)	Remains unchanged	Falls

(2015 A/L Economics -I MCQ 44)

24. Consider the following table

Year	Export Price index	Terms of trade index
1	100	100
2	90	80
3	80	60

From this data, one possible conclusion that can be drawn over the period shown is

1) export prices were rising
2) import prices were rising
3) there was an improvement in the terms of trade
4) more imports could be purchased with the same quantity of exports.
5) increase in export prices was greater than the increase in import prices

(2016 A/L Economics -I MCQ 38)

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25. The country's terms of trade increase from the base year value of 100 to 130 in the following year. What changes in export prices and import prices would have caused this?

	Export Price Index	Import Price Index
1)	Decreased 30%	Increased 10%
2)	Decreased 20%	Decreased 10%
3)	Increased 30%	Unchanged
4)	Increased 10%	Decreased 20%
5)	Unchanged	Increased 30%

(2018 A/L Economics -I MCQ 41)

26. What is the formula used to calculate the country's commodity terms of trade?

1) (Export Price Index – Import Price Index) x 100
2) (Import Price Index – Export Price Index) x 100
3) $\frac{\text{Export Price Index}}{\text{Import Price Index}} \times 100$
4) $\frac{\text{Import Price Index}}{\text{Export Price Index}} \times 100$
5) $\frac{\text{Export Volume Index}}{\text{Import Price Index}} \times 100$

(2019 A/L Econ- New -I MCQ 38)

27. The table below shows data related to the commodity terms of trade index for a country.

Year	Terms of trade index
2014	100
2016	110
2018	134

1) Export prices rose relatively fast then import prices.
2) import prices rose relative to export prices.
3) the volume of export exceeded the volume of imports.
4) the volume of exports rose faster than the volume of imports
5) the balance of trade surplus increased

(2019 A/L Econ- Old -I MCQ 40)

Trade agreements and globalization

28. The main driving forces of globalization process are
1) Technological advances and liberalization policies.
2) Bi – lateral trading agreements and the WTO
3) Digital revolution and internet.
4) Disintegration of production process and FDI.
5) Reduction in shipping cost and protectionist policies of developed countries.

(2011 A/L Economics -I MCQ 43)

29. Which of the following countries entered in to a free trade agreement with Sri Lanka most recently?

1) India 2) China 3) Bangladesh 4) Singapore 5) Pakistan

(2019 A/L Econ- Old -I MCQ 39)

30. Free trade zone is
1) A regional area within which trade with foreign nations are allowed.
2) Free trade agreement among several Nations.
3) Designed to Limit exports of manufactured goods by placing export taxes on goods made within the zone.
4) Special area within the country where foreign companies can import materials and manufacture export products without being limited by usual rules and taxes.
5) Special area within a country where imported goods are stored for the purpose of re-export.

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