Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA (International Business) – SEMESTER 1 – EXAMINATION – WINTER 2018

Subject Code: 1519303 **Date:27/12/2018**

Subject Name: International Economic Environment (IEE)

Time:10:30 am To 01:30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 Briefly explain the following concepts - **14**

(a) Marginal Cost
(b) Inflation
(c) Real Exchange Rate
(d) Main Functions of World Trade Organization (WTO)
(e) Cash Reserve Ratio (CRR)
(f) Components of GDP with suitable examples
(g) Concept of Absolute Advantage

Q.2 **(a)** Explain how barriers to entry can create monopoly. How does the demand curve faced by a monopolist differ from the demand curve faced by a perfectly competitive firm? **07**

(b) From the below table – **07**

i. Find TC and ATC
ii. Plot TC and ATC
iii. Find AFC, AVC and MC
iv. Plot the AFC, AVC and MC

Quantity	1	2	3	4	5
Fixed Cost (Rs.)	30	30	30	30	30
Variable Cost (Rs.)	20	30	45	80	145

OR

(b) A demand schedule for pens of students at ABC school is presented in the following table: **07**

Price: Rs. 6 5 4 3 2 1 0

Quantity: 0 20 40 60 80 100 120

Find out the price elasticity of demand when the price changes from

(i) Rs. 5/- to Rs. 3/- and (ii) Rs. 3/- to Rs. 5/-

Q.3 **(a)** Home has 1200 units of labour available. It can produce two goods, apples and bananas. The unit labour requirement in apple production is 3, while in banana production it is 2. **07**

a. Graph Home's production possibility frontier.
b. What is the opportunity cost of apples in terms of bananas?
c. In the absence of trade, what would be the price of apples in terms of bananas? Why?

(b) Explain how each of the following developments would affect the supply of money, the demand of money, and the interest rate. **07**

a. The RBI raises the discount rate.
b. The RBI sells bonds in open market operations.
c. Household income rises.

OR

Q.3 **(a)** What is opportunity cost? Give some examples of opportunity cost. How are these costs relevant for managerial decisions? **07**

(b) In the past two decades, nontariff trade barriers have gained in importance as protectionist devices. What are the major nontariff trade barriers? Which is a more restrictive trade barrier: an import tariff or an equivalent import quota? **07**

Q.4 **(a)** Define Gross Domestic Product. Below are some data for an X economy, which produces only two goods A & B. **07**

Year	Prince of A (Rs.)	Quantity of A	Prince of B (in Rs.)	Quantity of B
2015	1	150	2	100
2016	2	200	3	150
2017	3	250	4	200

Calculate Nominal GDP, Real GDP & GDP Deflator for each year (use 2015 as a base year).

(b) What do you understand by exchange rate? Explain with appropriate example. If hypothetically, the Japanese yen gives 15% interest rate against 10% interest rate of Euro deposits and the expected rate of depreciation of the yen is 10 %.What will happen to the Euro deposits in the foreign exchange market? By how much shall the yen depreciate to bring the foreign exchange market to equilibrium? **07**

OR

Q.4 **(a)** Explain the characteristics of oligopoly. What is the Prisoners' dilemma and what does it have to do with oligopoly? Also explain the following terms for oligopoly market: **07**

i. Nash Equilibrium
ii. Interdependence of firms

(b) How fiscal policy acts as a tool for managing the level of Aggregate Demand? With a Rs. 500 million gap between its current output and its full employment output, and with an MPC of 0.75, how much would government spending have to increase to achieve the AD of Rs. 500 million? **07**

Q.5 **CASE STUDY: HISTORICAL GAINERS AND LOSERS FROM TRADE** **07**

Countries trade because they have a comparative advantage (based either on a relative advantage in technology or on relative factor abundance) or because different countries specialize in making different brands when scale economies exist. Either way, countries buy goods more cheaply than they could have done without international trade. Although trade is beneficial in the aggregate, this is no guarantee that trade makes everyone better off. Current concerns about globalization arise because there are losers too. Here are some historical examples of the conflicts to which international trade gave rise.

Refrigeration

At the end of the nineteenth century, the invention of refrigeration enabled Argentina to supply frozen meat to the world market. Argentina's meat exports, non-existent in 1900, rose to 400,000 tonnes a year by 1913. The US, with beef exports of 150,000 tonnes in 1900, had virtually stopped exporting beef by 1913.

Who gained and who lost in this early example of globalization? Argentina's economy was transformed. Owners of cattle and land gained; other land users lost out because higher demand bid up land rents. Argentine consumers found their steaks becoming dearer as meat was shipped abroad. Argentina's GNP rose a lot, but the gain from trade was not equally distributed. Some people in Argentina were worse off. Similarly, in Europe and the United States, cheaper beef made consumers better off. But beef producers lost out because beef prices fell. Landowners experienced an overall drop in the demand for land, and had to reallocate it to other less profitable uses.

Refrigeration opened up the world to Argentinean beef. As a whole, the world economy gained. In principle, the gainers could have compensated the losers and still had something left over. In practice, gainers rarely compensate losers. So some people lost out. In this example, the biggest losers were beef producers elsewhere in the world and other users of land in Argentina.

Q.5 **(a)** Explain the concept of comparative advantage in trade with the help of suitable example. **07**

(b) Explain how Argentina's incorporation of technology caused the US to lose its comparative advantage in the production of beef. **07**

OR

Q.5 **(a)** Explain the law of comparative advantage in international trade. Give examples to support your answer. **07**

(b) Who lost and who gained from Argentina's increased competitiveness and Why? **07**