

GUJARAT TECHNOLOGICAL UNIVERSITY**MBA (IB) – SEMESTER I – EXAMINATION – WINTER 2019****Subject Code: 1519303****Date: 27/12/2019****Subject Name: International Economic Environment****Time: 10:30am to 1:30pm****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) Tariff Avoidance and Tariff Evasion
 - (b) Diminishing Marginal Utility
 - (c) Nominal Exchange Rate
 - (d) Price Elasticity
 - (e) Cash Reserve Ratio (CRR)
 - (f) Opportunity Cost
 - (g) Concept of Comparative Advantage

- Q.2** (a) Describe the four components of Gross Domestic Product (GDP) with the help of suitable examples. **07**
- (b) Draw a circular flow diagram representing the interactions between households and firms in a single economy. Explain briefly the various parts of the diagram. **07**

OR

- (b) Describe the three attributes of perfect competition. Draw the cost curves and explain the conditions under which the firm makes a decision to (a) Shut Down (b) Exit. **07**
- Q.3** (a) If the RBI wants to increase the money supply with open market operations, what does it do? How is the amount of reserves banks hold related to the amount of money the banking system creates? **07**
- (b) Unlimited Storage Inc. determines that in year 2018 the demand curve for its removable storage media (pen drives) is $P = 2000 - 50Q$, where P is the price of a pen drive, and Q is the number of pen drives sold per month. **07**
- a. What price would the company have to charge to sell 20 pen drives per month?
 - b. If it sets a price of Rs. 500 for a drive, how many drives will it sell per month?
 - c. What is the price elasticity of demand if price is Rs. 500?

OR

- Q.3** (a) A firm has fixed cost of Rs. 100 and average variable cost of Rs. $5 \times Q$, where Q is the number of units produced. **07**
- a. Construct a table showing total cost for Q from 0 to 10.
 - b. Graph the firm's curves for marginal cost and average total cost.
 - c. How does marginal cost change with Q ? What does this suggest about the firm's production process?
- (b) Develop an arithmetic example that illustrates how a nation could have an absolute disadvantage in the production of two goods and could still have a comparative advantage in the production of one of them. **07**

- Q.4** (a) Suppose that there are 10 million workers in Canada and that each of these workers can produce either 2 cars or 30 bushels of wheat in a year. **07**
- a. What is the opportunity cost of producing a car in Canada? What is the opportunity cost of producing a bushel of wheat in Canada? Explain the relationship between the opportunity costs of the two goods.
 - b. Draw Canada's production possibilities frontier. If Canada chooses to consume 10 million cars, how much wheat can it consume without trade? Label this point on production possibilities frontier.
- (b) Describe a specific tariff, an ad valorem tariff, and a compound tariff with appropriate example. What are the advantages and disadvantages of each? **07**

OR

- Q.4** (a) Explain how an increase in the price level affects the real value of money. According to the Fisher effect, how does an increase in the inflation rate affect the real interest rate and the nominal interest rate? **07**
- (b) What factors influence the rate of growth in the volume of trade? Explain whether international trade is an opportunity or a threat to workers. Justify your answer with the help of suitable examples. **07**

Q.5 Case Study: Brazil nut price rises **07**

Food prices often rise or fall with good or bad harvests or because of a change in demand. A recent example is the price of brazil nuts, which by May 2017 had risen over 60% on European markets. Part of the reason for the price rise has been on the demand side. Consumption of brazil nuts has increased as more people switch to healthier diets. This includes the purchase of the nuts themselves and as part of healthier snack foods. Nuts are in demand as part of a healthy diet, and some have gained a reputation as "superfoods". Brazil nuts, for example, are an excellent source of selenium, which is good for the skin, and can be consumed as part of a gluten-free and vegetarian diet, which would exclude other sources of selenium in whole grains or meats. With supply being relatively inelastic, any rise in demand tends to have a relatively large effect on price.

A more acute reason is on the supply side. Brazil nuts are harvested from the Brazil nut tree that grows only in specific Amazon rainforest locations in key producing regions in Bolivia, Brazil and Peru. The industry within each country differs to a certain extent, but the basic principles of collection and production are very similar. The nuts are collected by groups of foragers from December until May, who travel into the rainforest to collect the cocos (pods) containing the nuts that have dropped from the tree. The harvested nuts are then supplied to intermediaries who sell them on. There are several aspects of this supply chain that are specific to the Brazil nut industry and which can cause problems. They are often found in remote locations, and require at least 12 years growth before they yield any nuts. The trees can grow to at least 50 metres tall, and successful pollination is dependent on specific type of bee.

There has been a very poor harvest of brazil nuts. The nuts are grown largely in the Amazon basin which has been hit by drought linked to the El Niño effect. This, however, is only a temporary effect and future harvests should increase again as rainfall returns to normal. However, in the longer term, rainfall patterns may change with the effects of global warming.

A lack of rainfall means that the cocos drop from the trees earlier in the season, resulting in fewer and smaller kernels, which compromises supply of the full-size nuts the market seeks. In fact, the extent of the supply shortfall is such that Brazil has become a net importer of Brazil nuts, which in turn only further exacerbates the global scarcity of the nuts, pushing up prices.

The price rise in the UK has also aggravated by the depreciation of the pound since the Brexit vote, which has fallen some 13% against the dollar since June 2016. A rise in the dollar price of brazil nuts has thus led to an even bigger rise in their sterling price.

- Q.5** (a) Explain the specific supply conditions that have affected the price of brazil nuts in 2017. **07**
- (b) Find out what other food prices have risen or fallen a lot in recent months and explain why. **07**

OR

- Q.5** (a) What determines the price elasticity of demand for brazil nuts? **07**
- (b) How do real food prices (i.e. prices after correcting for inflation) compare today with 10 and 20 years ago? Explain why. **07**
