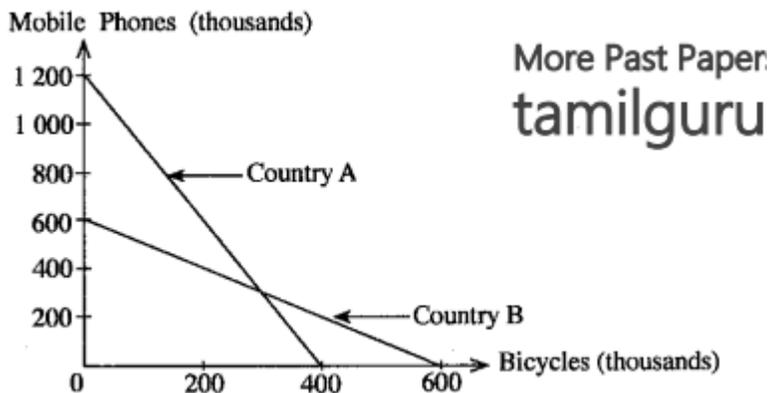




1. The following diagram shows production possibilities curves for country A and country B producing mobile phones and bicycles.



- (a) What is the opportunity cost of producing a bicycle in each country?
 - (b) Which country has a comparative advantage in the production of mobile phones?
 - (c) For mutually beneficial trade to occur, what should be the rate of exchange between mobile phones and bicycles?
2. "The performance of Sri Lankan export sector has been lagging in comparison to its regional counterparts over the last two decades". Give reasons for the poor performance of the export sector in Sri Lanka.
 3. Explain how a significant rise in the general price level will affect the current account of the balance of payments of an economy.
 4. Explain the meaning of 'external stability'.
 5. State briefly the potential benefits of regaining GSP plus duty concession for Sri Lankan exports to European Union.