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1. Let country A's endowment of labour equal 200 units and country B's endowment of labour equal 200 units. The labour requirement for the production of one unit of good X and good Y in each country is given in the table below.

| Country A | | Country B | |
|-----------|--------------|-----------|--------------|
| Good | Labour units | Good | Labour units |
| X | 5 | Х | 4 |
| Y | 4 | Y | 8 |

- (a) Draw separately production possibilities frontier for each country and label them correctly.
- (b) Which country has an absolute advantage in which good?Explain your answer.
- (c) Which country has a comparative advantage in which good? Explain your answer.
- 2. State any two sources of comparative advantage.
- 3. Name the main components of the current account of the Balance of Payments statement.
- 4. Distinguish between nominal exchange rate and the effective exchange rate.
- 5. What are the arguments for free trade?