



[Frequently Asked Questions]

[International Trade Theory (Part-2)]

Subject:	Business Economics
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Unit No. & Title:	Unit – 1(One) International Trade Theory
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Frequently Asked Questions

(1) Who gave the opportunity cost theory of international trade?

A. Haberler gave the opportunity cost theory of international trade.

(2) What is the main objective of opportunity cost theory?

A. the main objective of the opportunity cost theory is to overcome the labor theory of value of international trade.

(3) What is opportunity cost?

A. The opportunity cost of a commodity is the amount of a second commodity that must be given up to release just enough resources to produce one additional unit of first commodity.

(4) Give the definition of production possibility frontier.

A. Production Possibility Frontier is a locus of various combinations of two commodities that can be produced by a nation with a given amount of resources and technology. Here all resources are fully utilized.

(5) What is the meaning of straight line production possibility frontier?

A. The straight line production possibility frontier exhibits the constant opportunity cost.

(6) Write the meaning of constant opportunity cost.

A. The constant opportunity cost shows that the opportunity cost remains the same throughout the production possibility frontier.

(7) What is Marginal Rate of Transformation?

A. Marginal Rate of Transformation shows the slope of the production possibility frontier.

(8)What is community indifference curve?

- A. It shows the various combinations of two commodities that give equal level of utility to the nation.