

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Final year First Semester Examination in Commerce 2005/06 & 2006/07

ECN 4053 International Trade and finance

Answer all Questions

Time: 3 Hours

1. Select the right answer to the following questions

- i. International economics deals with:
 - a. the flow of goods, services and payments among nations
 - b. policies directed at regulating the flow of goods, services and payments
 - c. the effects of policies on the welfare of the nation
 - d. all of the above
- ii. Historically, some countries have tried to promote a surplus of exports over imports in order to bring more gold into the country. This is called
 - a. Comparative advantage
 - b. Mercantilism
 - c. The New World Order
 - d. All of the above
- iii. International trade will not be gainful if
 - a. One of the countries is more efficient in the production of both commodities.
 - b. Cost of production is same in both countries.
 - c. One of the countries is inefficient in the production of both commodities
 - d. all of the above
- iv. Suppose Germany can produce one ton of sausage with 100 units of resources and a case of wine 50 units of resources, while France can produce one ton of sausage with 600 units of resources and a case of wine with 100 units of resources. According to the principle of comparative advantage,
 - a. France will export sausage, and Germany wine
 - b. Germany will export sausage, and France wine
 - c. France will export both goods
 - d. Germany will export both goods
- v. The advantage theory of International trade was explained by
 - a. Adam smith
 - b. Haberler
 - c. Heckscher, Ohlin
 - d. J.S Mill

vi. Under which of the following condition country A is capital abundant country compared to country B.

a. $\left(\frac{T_K}{T_I}\right)_A < \left(\frac{T_K}{T_I}\right)_B$

b. $\left(\frac{T_L}{T_K}\right)_A < \left(\frac{T_K}{T_I}\right)_B$

c. $\left(\frac{T_K}{T_I}\right)_A > \left(\frac{T_K}{T_I}\right)_B$

d. $\left(\frac{T_K}{T_I}\right)_A < \left(\frac{T_K}{T_I}\right)_A$

vii. International trade theory refers to:

- a. the microeconomics aspects of international trade
- b. the macroeconomics aspects of international trade
- c. open economy macroeconomics or international finance
- d. all of the above

viii. Which of the following is not the subject matter of international finance?

- a. foreign exchange markets
- b. the balance of payments
- c. the basis and the gains from trade
- d. policies to adjust balance of payments disequilibria

ix. Trade in differentiated products refers to

- a. inter- industry trade
- b. Intra- industry trade
- c. Trade based on economies of scale
- d. Trade based on technological Gap

x. The form of economic integration in which the member nations eliminate tariff on trade among themselves, adopt a common external tariff and allow the free movement of labour and capital within the union is

- a. Free trade area
- b. Customs union
- c. Common Market
- d. Economic union

(2x10 Marks)

2. Distinguish between the following concepts.

- i. Persistent dumping and Predatory dumping
- ii. Ad valorem tariff and specific tariff
- iii. Customs Union and Economic union
- iv. Trade creation and trade diversion

(4x5 Marks)

3. i. What are the two important concepts of HO theory of international trade

(6 Marks)

ii. How can international trade be based on economies of scale?

(7 Marks)

iii. Explain the relationship between technological gap and international trade

(7 Marks)

4. i. Explain the various types of non - tariff trade barriers

(5 Marks)

ii. Nation A is small and unable to affect world price. It imports peanuts packets at the world price of Rs. 10/- per packet. The domestic demand curve for peanuts is

$$D = 400 - 10P$$

The domestic supply curve for peanuts is

$$S = 50 + 5P$$

Determine the free trade equilibrium. Then calculate and graph the following effects of an import quota that limits the import to 50 packets.

- a. domestic price increase
- b. The consumption effects
- c. The production effects

(15 Marks)

5. i. Who are the main participants of foreign exchange market?

(5 Marks)

ii. What are the most important functions of foreign exchange market?

(5 Marks)

iii. What is meant by "Hedging"

(5Marks)

iv. "Exchange arbitrage involves taking advantage of exchange rate differences in different markets to make a profit" Explain

(5Marks)