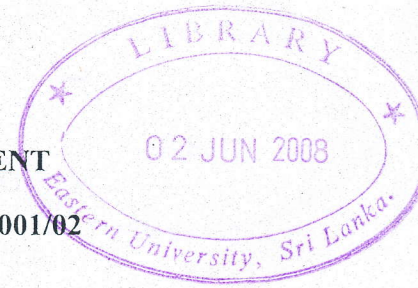


EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

FINAL YEAR EXAMINATION IN COMMERCE 2001/02

External Degree - May 2008 (Repeat)



COM 403 INTERNATIONAL TRADE & FINANCE

Answer any five questions

Time: 3 hours

1. i. Explain the Adam Smith's view of international trade? (6 Marks)
- ii. Explain the Comparative advantage theory of international trade (6 Marks)
- iii. List out the assumptions of Comparative advantage theory and explain drawbacks of the theory? (8 Marks)

2. Nation A and Nation B are producing two different commodities X and Y using homogenous labours. The following table shows the production of both commodities.

	Nation A		Nation B	
	X	Y	X	Y
A	0	10	0	20
B	4	8	2	16
C	8	6	4	12
D	12	4	6	8
E	16	2	8	4
F	20	0	10	2

Before trade both nations devote half of their resources to produce X and half of their resources to produce Y. And both nations have same factor endowment.

- i. Draw the production possibility curves for both Nations.
- ii. What are the opportunity costs of X and Y in both nations?
- iii. Shows the benefits of international trade for both nations.

(20 Marks)

- 3.
- i. Distinguish between labour intensive good and Capital intensive good. (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. What are the major trade Barriers? (6 Marks)
 - ii. Graphically illustrate and explain the economic effects of a quota that is placed on import? (8Marks)
 - iii. Graphically Explain the Economic effect of an import tariff? (6 Marks)
- 5.
- i. What is meant by custom Union? (5 Marks)
 - ii. Demonstrate the net welfare effect of a Custom Union by using graphical method. (10 Marks)
 - iii. What is trade creation and trade diversion? (5 Marks)
- 6.
- i. Explain the Foreign Exchange Market and Exchange rate? (5 Marks)
 - ii. What are main function of Foreign Exchange Market (5 Marks)
 - iii. Distinguish between Spot and forward Exchange rate? (5 Marks)
 - iv. Why the forwarded exchange rate is useful in international trade? (5 Marks)



7. Explain the followings.

- i. Gain from trade and gains from Specialisation
- ii. Transport cost and international trade
- iii. GATT
- iv. Offer curves

8. i. What is meant by Dumping?

(5 Marks)

ii. Explain the Various types of Dumping

(5 Marks)

iii. Explain the effects of dumping for importing country and exporting country

(10 Marks)