

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE & MANAGEMENT
THIRD YEAR SECOND SEMESTER EXAMINATION IN BACHELOR OF
COMMERCE HONOURS 2021 / 2022
(August - September – 2024 proper/repeat)

ECN 3093- INTERNATIONAL TRADE AND FINANCE

Instructions

- Answer to all questions.
- This question paper consists of part I (10 multiple-choice questions) and part II (4 structured questions).
- For multiple-choice questions, read each question carefully and underline the most appropriate answer directly on the question paper.
- For structured questions, write your answers in the answer script provided. Clearly label each question number.
- Electronic devices are not allowed during the examination.

Time: 3 Hours

Part – I

1. Choose the correct answer from the choices provided and underline it.

1. What term refers to the increasing interconnectedness and interdependence of countries and their citizens?
 - (1) Localisation
 - (2) Globalization
 - (3) Nationalization
 - (4) Decentralization
 - (5) Regionalism

2. What is the primary focus of the New Trade Theories?
 - (1) Perfect Competition
 - (2) Factor Endowments
 - (3) Economies of Scale
 - (4) Tariffs and Quotas
 - (5) Absolute Advantage

3. After World War II, which country was economically and politically the most powerful nation in the world?
 - (1) United Kingdom
 - (2) Soviet Union
 - (3) China
 - (4) USA
 - (5) Japan

4. What is the key characteristic of intra-industry trade?
 - (1) Trade of Similar Products
 - (2) Trade of Different Products
 - (3) Trade of Raw Materials
 - (4) Trade of Services
 - (5) Trade of Agricultural Goods

5. What is the main proposition of the Heckscher-Ohlin theory?
 - (1) Trade is based on absolute advantages
 - (2) Trade arises from differences in factor endowments
 - (3) Trade is determined by the scale of economies
 - (4) Political relationships influence trade
 - (5) Trade results from consumer preferences

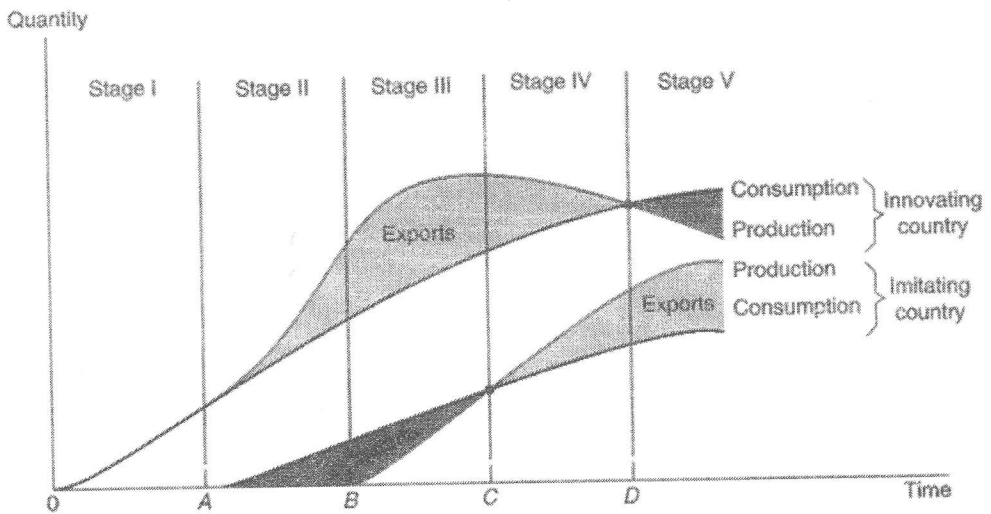
6. What do higher transportation costs typically result in for international trade?
- (1) Increased Trade Volume
 - (2) Decreased Trade Volume
 - (3) No Effect on Trade Volume
 - (4) Increased Tariff Revenues
 - (5) Decreased Trade Barriers
7. Which curve illustrates the combinations of two goods that a nation can consume when it engages in international trade?
- (1) Production Possibility Frontier
 - (2) Community Indifference Curve
 - (3) Offer Curve
 - (4) Consumption Curve
 - (5) Production Curve
8. Which organization is an example of an International Cartel that restricts output and exports to maximize profits?
- (1) WTO
 - (2) IMF
 - (3) OPEC
 - (4) NAFTA
 - (5) ASIAN
9. What is the main difference between import quotas and tariffs in terms of revenue?
- (1) Both generate revenue for the government
 - (2) Only import quotas generate revenue for the government
 - (3) Import tariffs generate revenue for the government, while import quotas generate revenue for licensed firms
 - (4) Neither generates revenue for the government
 - (5) Import quotas generate more revenue than tariffs
10. What is the effect of minimum price as a non-tariff barrier?
- (1) It allows prices to fall below the set level
 - (2) It decreases the price of imports
 - (3) It imposes surtaxes on imports if the price falls below the set level
 - (4) It encourages dumping
 - (5) It reduces domestic production

(10 × 2 = 20 Marks)

Part – II

02. a) What are the driving forces to globalization? (4 Marks)
- b) Explain the concept of international trade and the benefits for countries that engage in it. (6 Marks)
- c) What are the differences between export and import trade? (4 Marks)
- d) Define consumer surplus and producer surplus in the context of a national market with no trade, using a diagram and examples. (6 Marks)
- (20 Marks)**

- 03 a) According to the mercantilist view, what were the determinants of the country's wealth? and what strategies did they propose to increase it? (3 Marks)
- b) What are the three main concepts for understanding the Heckscher-Ohlin theory and its assumptions? (7 Marks)
- c) Briefly explain all the stages of the Product Cycle Model using below the diagram.



(5 Marks)

- d) What is meant by outsourcing and offshoring, and what are their advantages? (5 Marks)
- (20 Marks)**

4. a) Describe the different types of tariffs and provide examples for each. (3 Marks)
- b) What is dumping in international trade, and what are the different types of dumping? (4 Marks)
- c) Explain the benefits of trade policy instruments to a country. (4 Marks)
- d) Suppose the home country, Sri Lanka, has the following demand and supply functions:
 Demand: $P = 18 - Q_A$
 Supply: $P = 6 + Q_A$
- The foreign country, India, has the following demand and supply functions:
 Demand: $P^* = 20 - Q_{A^*}$
 Supply: $P^* = 2 + Q_{A^*}$
- i) Determine the equilibrium price in the home country when there is no trade. (1 Mark)
- ii) What is the home import demand curve? (2 Marks)
- iii) Determine the equilibrium price in the foreign country when there is no trade. (1 Mark)
- iv) What is the foreign export supply curve? (2 Marks)
- v) Calculate the equilibrium world price under free trade. (1 Mark)
- vi) Determine the quantity of imports for the home country at the world price. (1 Mark)
- vii) Determine the quantity of exports for the foreign country at the world price. (1 Mark)
- (20 Marks)**

5. a) What is the Customs Union, and what are its dynamic benefits? (3 Marks)
- b) What is the foreign exchange market, and what are its features and functions? (5 Marks)
- c) Explain the consignment payment methods in international trade, including their advantages and disadvantages. (6 Marks)
- d) What were the challenges faced by Sri Lanka in international trade during the crisis period, and what solutions can be recommended? (6 Marks)
- (20 Marks)**

(Total: 100 Marks)