

29 APR 2015

**EASTERN UNIVERSITY SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**THIRD YEAR FIRST SEMESTER EXAMINATION IN B.COM (2012/13)**  
**REPEAT/RE-REPEAT (APRIL 2015)**  
**COM 3013 INTERNATIONAL TRADE AND FINANCE**

**Answer all Questions**

**Time: Three hours**

1.
  - i. Explain the main advantages of specialization? (07 Marks)
  - ii. What is meant by the autarky equilibrium? (05 Marks)
  - iii. Briefly explain determining factors of international trade? (08 Marks)

**(Total 20 Marks)**
  
2.
  - i. State the assumptions of the Heckscher – Ohlin theory. (05 Marks)
  - ii. What is meant by labour intensive commodity and capital intensive commodity? (05 Marks)
  - iii. Briefly explain differentiation. (05 Marks)
  - iv. What is meant by absolute advantage? (05 Marks)

**(Total 20 Marks)**
  
3.
  - i. What are the characteristics of the commodity indifference curve? (05 Marks)
  - ii. What is meant by offer curves? (05 Marks)
  - iii. Using hypothetical information explain the gains from specialization. (10 Marks)

**(Total 20 Marks)**
  
4.
  - i. Differentiate between import quota and import tariff. (05 Marks)
  - ii. The nation of Sri Lanka is “small” and assumed to be unable to affect world prices. It imports strawberries at the price of 10 dollars per box. The Domestic Supply and Domestic Demand curves for boxes are:  
$$S = 200 + 30P$$
$$D = 800 - 10P$$
  - iii. Assume Sri Lanka is completely open to trade. What is the (06 Marks)

equilibrium price and quantity consumed? How much is produced domestically, and how much is imported?

- iv. Now consider the effect of an import quota of 400 boxes. What happens to the price of strawberries and quantity consumed? How much is produced domestically, and how much is imported? (06 Marks)
- v. Who wins and who loses? Discuss consumers, domestic producers, and importers. (03 Marks)

(Total 20 Marks)

5. i. What is meant by the labor theory of value? (05 Marks)

Using the following table answer the questions given below.

	U.S	U.K
Wheat (bushels/labour hour)	6	1
Cloth (yards/ labour hour)	4	3

- ii. State whether the U.S has an absolute advantage or a disadvantage in wheat and cloth. (05 Marks)
- iii. Indicate the commodity in which the U.S and the U.K have a comparative advantage. (05 Marks)
- iv. State the gains the U.K and U.S if they exchange 6W for 6C. (05 Marks)

(Total 20 Marks)