

Eastern University, Sri Lanka
Faculty of Commerce and Management
Third Year First Semester Examination in Bachelor of Commerce-2016/2017
Proper/Repeat (Oct, 2018)
COM 3013 International Trade and Finance

Answer all questions

Time: 03 Hours

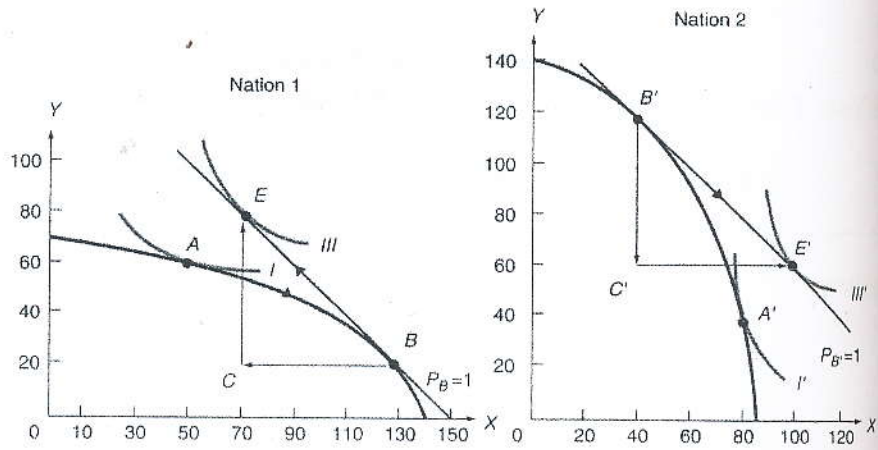
- i. What is meant by International Trade? (03 Marks)
 - ii. List out the reasons for international trade and briefly explain any three of them. (09 Marks)
 - iii. Briefly explain under which situations the international trade becomes disadvantage to the involving countries. (08 Marks)
- (Total 20 Marks)**

- i. Briefly state the Mercantilists' view on trade. Do you observe the major characteristic of Mercantilism in the current world trade culture? How? (04 Marks)
- ii. What is meant by Absolute Advantage? Give a hypothetical example. (03 Marks)
- iii. Consider the information given in the table below, and answer the questions

	Textiles	Books
Sri Lanka	1	4
India	2	3
Total	3	7

- a. Explain the comparative advantage of the countries based on the opportunity costs. (03 Marks)
- b. Compare the gain from trade before and after the specialization. (02 Marks)

iv

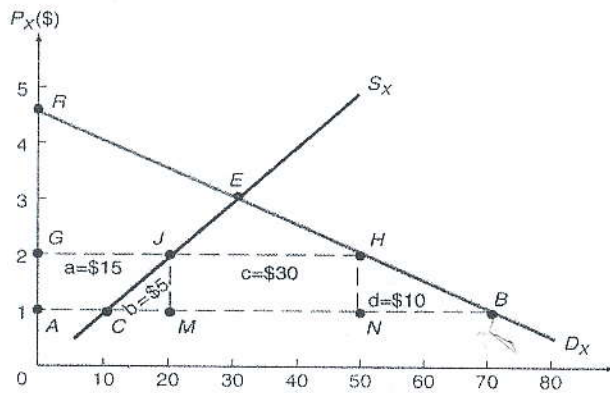


Answer the following question based on the graph given above.

- State the meaning of the points A and B, and A' and B'.
- State the gain of Nation 1 and 2 before and after international trade.
- How would you interpret the indifference curves (I and III, and I' and III') in two Nations.

3.

- What is meant by Tariff? List out the advantages of import Tariff to the importing country.
- Identify in the graph the various effects by Import Tariff.



- What is meant by Export Tariff? Briefly explain with example under which circumstances a country has to impose export tariff.
- Graphically explain the effects of import quota on the exporting and importing countries.

- i. What is meant by Foreign Direct Investment (FDI)? Distinguish between Resource Seeking, Market Seeking, and Efficiency Seeking FDI. (06 Marks)
- ii. Briefly explain how Multinational Companies (MNCs) play a vital role in international trade. (04 Marks)
- iii. Briefly explain with example the forward and backward integration strategies of MNCs. (06 Marks)
- iv. The concept of Global Production Sharing develops a new trend in international trade. Explain how far you would agree with this statement. (04 Marks)
- (Total 20 Marks)**

5. i. What is meant by currency exchange rate? Distinguish between direct quote and indirect quote. (04 Marks)
- ii. Currency value against US dollar has been declining in Sri Lanka. This trend is becoming a serious of concern in Sri Lankan Economy as the value declines significantly for last couple of months. Answer the following questions.
- a. What is meant by currency depreciation? (02 Marks)
- b. What could be the reasons for this trend in Sri Lanka? (03 Marks)
- c. What are the impacts that are being experienced by currency depreciation in Sri Lanka? (04 Marks)
- iii.

Foreign Currency	NERs (2017) Direct Quote Rs.	Value of Trade Rs.Mn
US\$	165	300
EURO	202	160
YEN	1.54	100
Indian Rupee	2.85	250
Total		810

- i. Measure weighted average for all currencies (02 Marks)
- ii. Calculate Nominal Effective Exchange Rate (NEER) (03 Marks)
- iii. Suppose that in 2018 the Rs. depreciates against US\$ by 9% whereas appreciates against YEN and EURO by 3% and 2% respectively. Measure new NEER and compare the status of Sri Lankan rupee. (02 Marks)
- (Total 20 Marks)**