

Eastern University, Sri Lanka
Faculty of Commerce and Management
Third Year Second Semester Examination in B.Com
2012/2013 (July, 2015)-Proper

COM 3013: International Trade and Finance

Answer all questions

Time: Three Hours



1.
 - i. What is meant by international trade? (04 Marks)
 - ii. What is trade balance? State how international trade can impact on national economy of a country. (08 Marks)
 - iii. Briefly explain advantages and disadvantages of international trade. (08 Marks)

(Total 20 Marks)

2.
 - i. Define the absolute advantage with appropriate hypothetical example. (04 Marks)
 - ii. Explain how comparative advantage differs from the absolute advantage. (04 Marks)
 - iii. Graphically explain the gain from trade using production possibility frontier under constant costs. (06 Marks)
 - iv. Graphically show production possibility frontier under increasing costs of nations. (06 Marks)

(Total 20 Marks)

3.
 - i. What is factor endowment? How differences in factor endowment motivate in international trade? (06 Marks)
 - ii. Briefly explain how Heckscher-Ohlin (H-O) deals with and predicts the pattern of the trade. (06 Marks)
 - iii. Briefly explain the factor equalization theorem. (08 Marks)

(Total 20 Marks)

4.
 - i. What is tariff and why countries impose tariff? (05 Marks)
 - ii. Define specific tariff, Ad Valerom tariff and compound tariff. (06 Marks)

iii. Graphically show the gains and losses of tariff by using partial equilibrium analysis of trade in small nation case. (05 Marks)

iv. Define the rate of effective protection. (04 Marks)

(Total 20 Marks)

5.

i. What is exchange rate? How exchange rate of a currency is determined? (04 Marks)

ii. Explain the economical impact of domestic currency appreciation. (06 Marks)

iii. Distinguish between fixed and floating exchange rate. (04 Marks)

iv. Briefly explain the advantages of flexible exchange rate system. (06 Marks)

(Total 20 Marks)