

EASTERN UNIVERSITY, SRI LANKA  
FACULTY OF COMMERCE AND MANAGEMENT

3<sup>RD</sup> YEAR 2<sup>ND</sup> SEMESTER EXAMINATION IN ECONOMICS- 2004/05  
ECN-3033 INTERNATIONAL ECONOMICS

Answer all questions

Time: 3 hours

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1. Explain the following:

- i. Gains from trade
- ii. Offer curves
- iii. Leontief paradox
- iv. Free trade is better than no trade
- v. Trade problems of developing countries
- vi. Increasing opportunity cost and trade
- vii. GATT
- viii. Types of economic integration
- ix. Factor intensity

(40 Marks)

2. i. How does Adam Smith's view on international trade differ from that of Ricardo's view?

(5 Marks)

ii. Explain the important assumptions of comparative advantage theory?

(5 Marks)

iii. Differences in opportunity cost lead to international trade? Explain

(5 Marks)

3. i. What are the necessary conditions for trade in the H/O theory?

(5 Marks)

ii. What is meant by factor endowment? How is factor endowment measured?

(5 Marks)

iii. In what ways is the H.O theory of international trade superior to other trade theories?

(5 Marks)

4. i. What are the primary functions of a tariff in a developing country?  
(3 Marks)
- ii. Distinguish between nominal tariff rate and the rate of effective protection?

(4Marks)

- iii. A small country can import a commodity at the world price of 10 rupees per unit. The domestic demand and supply functions are given as follows:

$$Q_d = 400 - 10P$$

$$Q_s = 50 + 5P$$

Show the welfare effects of a tariff of 5% levied on imports.

(8Marks)

5. i. Explain the relationship between offer curves and terms of trade?  
(5 Marks)

- ii. Explain the various types terms of trade  
(5 Marks)

- iii. Show the effects of the following factors in determining the terms of trade?

a. increase in resource endowment

b. technical progress

(5 Marks)