

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**

**4<sup>TH</sup> YEAR 1<sup>ST</sup> SEMESTER EXAMINATION IN COM,2004/05**

**ECN-4054 INTERNATIONAL TRADE & FINANCE**

Answer all questions

Time: 3 hours

1. Differentiate and explain the followings.

- i. Intra-industry trade and Inter-industry trade
- ii. Spot rate and forward rate
- iii. GATT and WTO
- iv. Tariff and quota
- v. Custom union and free trade area.

(20 Marks)

2. i. How a country can have an absolute disadvantage in the production of all goods but still have a comparative advantage in the production of the same good? Explain.

(5 Marks)

ii. The following table shows the maximum output of machine and cloth that the USA and India produce under constant cost condition.

	One person per day of labour produce	
	Machine	Cloth
USA	5 Machines	15 yards of cloth
India	1 Machine	5 yards of cloth

- a. What is the pre trade relative cost in both countries?
- b. Which country has the comparative advantage in cloth? And which in Machine? Explain.
- c. What are the gains from trade and specialisation in USA and India? Explain.

(15 Marks)

3. i. What are the basic determinants of comparative advantage and trade in the H O theory? (5 Marks)
- ii. Consider the following information on the factor endowment of two countries.

	Country A	Country B
Labour	30 Million	15 Million
Capital	200,000 Machines	400,000 Machines

- a. Which country is relatively labour abundant?
- b. Which country is relatively Capital abundant?
- c. Assume that good X is capital intensive relative to good Y. Which country will have comparative advantage in the production of good X and Y

(15 Marks)

4. i. Shows how an import tariff reduces the welfare of consumers by a large amount than it increases the welfare of producers. (5 Marks)

- ii. Suppose that free trade price of a domestic product is 10,000/=. And contains 25% imported inputs. Assume that the tariff on final good is 10 % and a 5% on imported inputs.

- a. What is the price of the product after the imposition of tariff?
- b. What is the domestic value added before and after the imposition of tariff?
- c. What is the effective rate of protection?

(15 Marks)

5. i. What does the term "Economic integration" means? (5 Marks)

- ii. What are the different types of Economic integration? Differentiate them. (5 Marks)

- iii. What are the trade problems faced by developing countries? (5 Marks)

- iv. Why do countries trade? (5 Marks)