



Uva Wellassa University
Faculty of Animal Science & Export Agriculture
Bsc in Export Agriculture
End semester examination – February-March 2011
Year IV - Semester I
EAG 422-2 International Trade & Finance



Part C – Essay Questions

Answer only three (3) questions including question number one (01).

- 01) Differentiate the theories of “Absolute Advantage” and “Comparative Advantage” of international trade by taking necessary applications or justifications.

(10 Marks)

02)

- i) “Crazyland” is a developing country with imperfect capital immobility. Newly appointed government intends to discuss with the governor of the Central Bank regarding the appropriate exchange rate policy which they should implement. Further they are willing to adopt either fiscal policy or monetary policy. Assume that you are the governor of Central Bank of Crazyland and give the necessary instructions to the government by using “Mundell-Fleming model”.

(10 Marks)

- ii) After few years, Crazyland has become a developed country with perfect capital mobility because of your advices. As a governor of Central Bank how do you going to change the above mentioned (i) situation according to the current situation?

(10 Marks)

(Total Marks 20)

03)

- i) "Tariff can be used for different purposes apart from its main role". Explain the above statement by taking Partial Equilibrium Analysis of Tariff in to account. (10 marks)
- ii) Use following table to answer the following questions (a) and (b). The table indicates the production details of Wheat and Cloth in USA and UK during different time periods.

Commodity	1990-1995		1995-2000		2000-2005	
	USA	UK	USA	UK	USA	UK
Wheat (Kgs/Labor hour)	4	2	4	1	4	2
Cloth (Meter/Labor hour)	3	2	1	1	2	1

- a) With respect to each time period, indicate in which commodity USA has an absolute advantage and comparative advantage in relation to the UK. (5 marks)
- b) Which commodity the USA should export to UK. (5 marks)

(Total Marks 20)

04) Explain following concepts briefly.

- i) Depreciation and Devaluation of Foreign Exchange Rate
- ii) Gravity Model of International Trade
- iii) Balance of Payments
- iv) The role of World Trade Organization

(5 Marks each)

(Total Marks 20)