



**Uva Wellassa University
Faculty of Management**



**Degree of Bachelor of Business Management and
Entrepreneurship**

Semester II Examination June/July 2009

EMG 341 – 3 International Trade and Finance

Part III

Answer **THREE** Questions only

1. a) The table below shows how two countries, **Sri Lanka** and Taiwan use labour in order to produce two products, cloth and shoes. Study the table and answer the questions that follow.

	Sri Lanka	Taiwan
Cloth (metres per man hour)	10	4
Shoes (pairs per man hour)	7	6

- I. Which country has absolute advantage in Shoes production?
- II. Which country has comparative advantage in cloth production?
- III. Which country has comparative advantage in Shoes production?

(6 marks)

- b) What was the basis for trade according to Adams Smith view? Explain with example.

(8 marks)

- c) Why is Ricardo's explanation of the comparative advantage unacceptable?

(6 marks)

2. a) Discuss Heckscher-Ohlin Model of International Trade. How is it different from Ricardian Model of International trade?

- b) Tariff affects on economy in different ways. Explain.

- c) The SriLanka's demand and supply schedule for cloth is given as follows,

P_C (Rs)	0	1	2	3	4	5	6	7
Q_{DC}	70	60	50	40	30	20	10	0
Q_{DS}	-10	0	10	20	30	40	50	60

- i) Plot the SriLanka's demand and supply curves for the cloth and indicate the equilibrium price and quantity for cloth in the SriLanka in the absence of trade.

- ii) If the SriLanka now allows free trade and $P_C = \text{Rs.}20$ on the world market, the world supply of cloth is finitely elastic at $\text{Rs.} = 2$ and we assume no transportation costs, what will P_C be in the SriLanka? How much cloth will the SriLanka consume, produce and import with free trade?
- iii) If the SriLanka now imposed a 50% *ad volorem (nominal)* tariff on its cloth imports, draw a figure showing the new P_C in the SriLanka and the consumption, production, trade and revenue effects of the tariff, as well as the world supply of cloth to the SriLanka without and with the tariff.
- iv) Calculate the consumer and producer surpluses before imposition of the tariff
- v) Calculate the consumer and producer surpluses after imposition of the tariff.
- vi) Calculate the cost of protection (deadweight loss)
3. a) Explain the various methods of protection which are implementing by the government. (8 Marks)
- b) Explain the various argument placed by the advocates of protectionism. (6 marks)
- c) Arguments of Floating Exchange Rate (6 Marks)
4. Write short notes on any four of the following
- a) Three kind of Foreign Exchange Transactions
- b) Stolper – Samuelson Theorem
- c) Types of Letter of credit
- d) Green field investment
- e) Sri Lanka – Pakistan Free Trade Agreement
- f) World Economic meltdown and its impact on Sri Lanka economics

(Total marks 20 x 3 = 60)

