



Uva Wellassa University
Faculty of Animal Science & Export Agriculture
BSc in Export Agriculture
BSc in Tea Technology and Value Addition
BSc in Palm & Latex Technology and Value Addition



End Semester Examination August /September 2014
Year III Semester II

International Trade & Finance EAG 321 -2

Instructions

Answer **all** questions.

No. of questions : Five (05)
No. of pages : Three (03)
Time : Two hours (02 hrs)
Total marks allocated: 100%

Question 01

I. Briefly explain following theories.

- a. Absolute Advantage Theory (03 marks)
- b. Comparative Advantage Theory (03 marks)
- c. Mercantilism Theory (03 marks)

II. Consider a world with two goods: Tea and Paddy, two countries: Sri Lanka and Philippine. Each country has a population of 100 and each person is endowed with one unit of labor.

One unit of labor can produce following amounts of tea and paddy in each country.

Country	Tea(Tons)	Paddy(Tons)
Sri Lanka	6	2
Philippine	4	4

Without trade each country uses half of resources to produce each product.

- a. How much of tea and paddy are produced in each country without trade? (04 marks)
- b. Which country has the comparative advantage for producing tea? (02 marks)
- c. Which country has the comparative advantage for producing paddy? (02 marks)
- d. If they specialized according to the comparative advantage, how much of tea and paddy will be produced in each country? (03 marks)

Question 02

- I. Briefly explain the following terms.
 - a. Production Possibility Frontier (2.5 marks)
 - b. Social Indifference Curves (2.5 marks)

- II. "Differing factor endowments between countries is the basis for international trade." Discuss this statement considering Heckscher Ohlin model. (Support your answer with graphical analysis). (15 marks)

Question 03

- I. Define Balance of Payment (BOP). (03 marks)
- II. Give the reasons for disequilibrium in BOP. (05 marks)
- III. Explain five measures that you would recommend to overcome the deficit in BOP. (05 marks)
- IV. Study the table and answer the questions below

Exports/Imports	\$million
Visible exports	166,921
Visible imports	179,578
Invisible exports	50,807
Invisible imports	43,665

- a. Calculate the balance of trade. (03 marks)
- b. Calculate the current account balance. (04 marks)

Question 04

- I. Briefly explain the difference between tariff and quota. (05 marks)
- II. Critically evaluate the following statement using the knowledge about Partial Equilibrium Analysis. "Tariffs have both positive and negative impacts on economy" (15 marks)

Question 05

Write short notes on following;

- I. Free Trade Agreements (06 marks)
- II. Role of World Trade Organization (06 marks)
- III. GSP⁺ and Sri Lankan Economy (08 marks)

