

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

FINAL YEAR SECOND SEMESTER EXAMINATION IN COMMERCE
2007/08 (Repeat) August 2008



ECN 4054 - INTERNATIONAL TRADE & FINANCE

Answer all questions

Time: 3 hours

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1. i. Explain the Adam Smith's view of international trade? (6 Marks)
 - ii. Explain the Comparative advantage theory of international trade (6 Marks)
 - iii. List out the assumptions of Comparative advantage theory and explain drawbacks of the theory? (8 Marks)
- 2
- i. Distinguish between labour intensive good and Capital intensive good. (6 Marks)
 - ii. How can international trade be based on economies of scale? (7 Marks)
 - iii. Explain the relationship between technological gap and international trade (7 Marks)
- 3.
- i. What is meant by custom Union? (5 Marks)
 - ii. Demonstrate the net welfare effect of a Custom Union by using graphical method. (10 Marks)
 - iii. What is trade creation and trade diversion? (5 Marks)

4.

i. Explain the Foreign Exchange Market and Exchange rate? (5 Marks)

ii. What are main function of Foreign Exchange Market (5 Marks)

iii. Distinguish between Spot and forward Exchange rate? (5 Marks)

iv. Why the forwarded exchange rate is useful in international trade? (5 Marks)

5. Explain the followings.

i. Gain from trade and gains from Specialisation

ii. Transport cost and international trade

iii. GATT

iv. Offer curves

(4x5 Marks)