EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

3RD YEAR 2ND SEMESTER EXAMINATION IN ECONOMICS 2003/04
(June/July 2005)

ECN-3034 INTERNATIONAL ECONOMICS

Answer all questions Time : 3 hours

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1. Distinguish and explain the followings:

 i. Internal and international trade
 ii. Relative price and opportunity cost.
 iii. Factor intensity and factor endowment.
 iv. Offer curve and terms of trade.
 v. Customs union and Economic union.
 vi. Gains from exchange and gains from specialisation.
 vii. Weighted and unweighted average tariff rate.
 viii. Increasing returns to scale and trade.
 ix. Ad valorem tariff and specific tariff
 x. Taste difference and trade

(4x10 Marks)

2. Suppose that country A has 9,000 labour hours available and country B has 16,000 labour hours. Both countries produce two different goods cloth and Wine. The following table shows the labour requirements to produce one unit of cloth and wine in each country.

	Cloth	Wine
Country A	1 hour/meter	3 hour/letter
Country B	2 hour/meter	4 hour/letter

 i. What is the pre trade price ratio in each country?
 ii. Which country has comparative advantage in cloth? And which in Wine? Explain why?
 iii. What can you say about the gains from trade between country A and country B? Explain.

(3x5 Marks)

3. i. Explain the price and physical definition of factor abundance.

(3 Marks)

ii. What are the fundamental conclusions of factor endowment theory of International trade?

(6 Marks)

iii. What is Leontief paradox and why is it a paradox?

(6 Marks)

4. i. What are the major trade policy instruments?

(3 Marks)

ii. Effective rate of protection heavily depends on domestic value added. Do you agree? Explain

(4 Marks)

iii. Suppose that under free trade price of a final good **F** is Rs 1000/- price of the two different inputs (**A** and **B**) to produce good **F** are P_A =Rs. 300/- , P_B = Rs 500/- per unit. one unit each of **A** and **B** is required to produced one unit of good **F**. 20% of ad valorem tariff is placed on good **F**, while imported inputs **A** and **B** face ad valorem tariff of 20% and 30 % respectively. Calculate the ERP for the domestic producers and interpret the meaning of ERP

(8 Marks)

5. i. What are the common problems facing developing countries today? Discuss with special reference to SAARC countries?

(10 Marks)

ii. To what extent regional cooperation (SARC) help overcome these problems.

(5 Marks)