

UNIVERSITY OF COLOMBO-SRI LANKA  
FACULTY OF ARTS  
MASTERS IN ECONOMICS – 2015/2016  
FINAL EXAMINATION – SEMESTER I  
MECON 504 - INTERNATIONAL ECONOMICS

Time allowed: 03 hours

Answer any 04 questions

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- (1) “Many developing countries in Asia experienced an expansion of exports in labour-intensive products after their policy reforms for trade liberalization.”
- i. Explain the concept of comparative advantage using Ricardian and Heckscher-Ohlin trade theories.  
(10 marks)
  - ii. How do you analyze the expansion of exports in labour-intensive products in developing countries in the context of comparative advantage theory?  
(15 Marks)
- (2) “...trade need not be a result of international differences in technology or factor endowments. Instead, trade may simply be a way of extending the market and allowing exploitation of scale economies....” (Paul Krugman 1979)
- i. Explain why trade is not necessarily a result of international differences in technology or factor endowments?  
(10 marks)
  - ii. What are the other factors that determine international trade? How do you compare and contrast between the two types trade determinants.  
(15 marks)
- (3) “According to Structuralist arguments, trade does not necessarily bring about benefits to both trading partners; particularly trade between advanced and developing countries during the postwar period was a benefit to the former group and loss to the latter group due to their terms of trade behaviour.”
- i. Explain the factors underlying the terms of trade problem in developing countries as perceived by the Structuralists.  
(10 marks)
  - ii. Many developing countries in Asia have overcome the terms of trade problem as recognized by the Structuralists, but not following the Structuralist policy package. Do you agree? Discuss.  
(15 marks)

- (4) "Export subsidies are as bad as export dumping, according to World Trade Organization (WTO) so that the importing countries can charge at WTO against exporting countries".
- i. Explain why both export subsidies and export dumping are treated in the same way. (10 marks)
  - ii. Even though countries can charge against export subsidies and export dumping at WTO, this is not an easy option for many developing countries. Explain why? (15 marks)
- (5) "Sri Lanka has joined with India to a bilateral free trade agreement (ISLFTA) 15 years ago, while negotiations are in progress to initiate a similar one with China".
- i. What are the common features of regional or bilateral free trade agreements? (10 marks)
  - ii. How do you evaluate the outcome of India – Sri Lanka FTA? What is your view on the potential benefits of the proposed China – Sri Lanka FTA? (It is not necessary to provide trade data). (15 marks)
- (6) "Trade in goods and services plays the major role in long-run determination of exchange rate of a country, while trade in assets is important for its short-run movements".
- i. Explain the demand for and supply of foreign exchange as outline in the balance of payments of the country. (10 marks)
  - ii. When the government, faced with a rising budget deficit, decides to borrow more by issuing domestic bonds, current exchange rate is likely to depreciate. Do you agree? Explain. (15 marks)
- (7) Select any TWO topics from the following list and write short essays:
- i. Stolper – Samuelson theorem of international trade
  - ii. Global product sharing and trade in tasks
  - iii. Role of infrastructure and regulations in international trade
  - iv. Role of foreign direct investment in international trade
  - v. Currency arbitrage and speculation in foreign exchange market
- (equal marks)

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