

UNIVERSITY OF COLOMBO

FACULTY OF MANAGEMENT AND FINANCE

**Bachelor of Business Administration (Level II-Semester V) Examination
June- 2017**

BEC-2300–International Trade Theory and Practice

Three (03) Hours

Answer Five (05) Questions only

1. i. “Mercantilists viewed international trade as a zero-sum game”. Explain this statement.
(02 marks)

ii. Assume a classical world of two goods and two countries where labor is the only input. One day of labor will produce the following amounts of output in each country.

	Cloth	Wheat
Blue-land	20	30
Pink-land	5	15

(a) Is there a basis for beneficial trade between the two countries? Explain using numerical calculations. (04 marks)

(b) If the equilibrium exchange ratio is 2 bushels of wheat per 1 yard of cloth, graphically explain how each country’s consumption possibilities increase using Production Possibility Curves and Trading Possibilities Curves. (Assume Y axis for Cloths and X axis for Wheat). (06 marks)

iii. In the early 1800s, the United Kingdom was a pioneer in textile manufacturing. Then the New England states of the United States became prominent in textile manufacturing. Now China and other low-wage countries are leading the world’s textile manufacturing. How do you explain the reason behind this shift?
(08 marks)

(Total 20 marks)

2. i. a. What does the factor proportions theory imply about the composition of a nation's exports and imports? (03 marks)
- b. In an **industrialized country**, those opposing free trade in the short run differ from those opposing it over a longer period. Explain this situation using Stolper-Samuelson Theorem and Specific Factor Theorem. (07 marks)
- ii. Distinguish between intra-industry trade in homogenous products and intra-industry trade in differentiated products. (05 marks)
- iii. According to US census department statistics in 2013, US traded more with developed industrialized countries than with developing countries. What can be the underlying reason for this trading pattern, according to Swedish economist Staffan Linder's explanation? (05 marks)

(Total 20 marks)

3. i. "Technological innovation and diffusion can make an advanced pioneer country a victim of its own creation." Discuss using Raymond Vernon's International Product Life Cycle theory while giving real world examples. (10 marks)
- ii. a. Define "Dynamic Comparative Advantage" and "Industrial Policy" (04 marks)
- b. Explain how Japan used Industrial Policy for its advantage. (06 marks)

(Total 20 marks)

4. i. a. What is meant by “competitiveness”, according to Michel E. Porter? (03 marks)
- b. Outline the attributes of the “Diamond of National Advantage” highlighting the key points of each attribute. (06 marks)
- ii. What should be the government’s proper role in creation National Competitive Advantage? (05 marks)
- iii. Elaborate how geographical distance affects international trade using gravity model of international trade. (06 marks)

(Total 20 marks)

5. i. Distinguish between nominal tariff rate and effective tariff rate. (02 marks)
- ii. Graphically show the national welfare effects of a tariff imposed by a large nation. (05 marks)
- iii. Following formulas give the demand and supply schedules for television sets in Venezuela, a “small” nation which cannot have an influence on world prices.

Demand – $Price = 550 - 0.5Q$

Supply- $Price = 100 + 0.5Q$

- a. Draw the demand and supply curves for Venezuela’s domestic TV set market. (02 marks)
- b. Suppose Venezuela imports TV sets at a price of \$150 each. Under free trade, how many sets does Venezuela produce, consume, and import? (03 marks)
- c. Assume that Venezuela imposes a quota that limits imports to 300 TV sets. Calculate the quota’s redistributive effect, consumption effect, protective effect, and revenue effect. (05 marks)

- d. Suppose that foreign exporters organize as a monopoly seller. What is the overall welfare loss to Venezuela as a result of the quota? (03 marks)

(Total 20 marks)

6. i. a. Graphically show the impact of labor migration on real wage rates and global output. (02 marks)

- b. Explain the political economic forces that will support as well as oppose free labor mobility across borders. (05 marks)

- ii. Elaborate the Modern Theory of Multinational Enterprises highlighting the key aspects that it tries to address. (06 marks)

- iii. "International lending and borrowing can be interpreted as inter-temporal trade."

- a. Distinguish between the countries that have an inter-temporal comparative advantage and disadvantage in inter-temporal consumption. (03 marks)

- b. Explain how the lending and borrowing would take place between such countries. (04 marks)

(Total 20 marks)

7. i. Elaborate four (04) arguments against international free trade. (08 marks)

- ii. Explain the political economic factors that a government takes into account when deciding whether to protect an industry from foreign competition. (08 marks)

- iii. Write short notes on the following economic policies.

- a. Import Substitution Industrialization (02 marks)

- b. Export Oriented Industrialization (02 marks)

(Total 20 marks)

8. i. What are the growth drivers suggested by the World Bank Country Diagnostic Report 2016 for Sri Lanka? (04 marks)
- ii. Explain how WTO differs from GATT. (08 marks)
- iii. Describe the types of trade blocs giving appropriate real world examples. (08 marks)

(Total 20 marks)