UNIVERSITY OF COLOMBO

FACULTY OF MANAGEMENT AND FINANCE

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

INB 2300 International Trade Theory and Practice

Three (03) Hours

Answer any five (05) questions

Use of calculators is permitted

1. i. Identify the main arguments behind the *mercantilist view* on international trade. How does the mercantilist concept of national wealth differ from today's view? Explain.

(06 Marks)

ii. "There is a resurgence of *neo-mercantilism* today". Briefly explain the term 'neo-mercantilism' with appropriate examples.

(06 Marks)

iii. "Adam Smith strongly advocated a policy of *laissez-faire* as opposed to the mercantilist view on international trade." Elaborate your view on the above statement.

(08 Marks)

(Total 20 marks)

2. i. State four (04) simplifying assumptions on which Ricardo based his '*Law of comparative advantage*'.

(04 Marks)

ii. "Ricardo himself did not believe in the *labour theory of value* and used it only as a simple way to explain the law of comparative advantage." Explain why the labour theory of value is an unrealistic assumption and an alternative theory to replace labour theory of value.

(08 Marks)

iii. Graphically illustrate how *equilibrium terms of trade* is determined with the derivation of offer curves.

(08 Marks)

(Total 20 marks)

3. i. Compare and contrast between *factor intensity* and *factor abundance*.

(06 Marks)

ii. Briefly explain the basis of comparative advantage according to the *Heckscher Ohlin model* of international trade.

(06 Marks)

iii. Discuss the *Leontief paradox* and some criticisms of the study that would explain the paradox.

(08 Marks)

(Total 20 marks)

4. The market for sugar in Sri Lanka is shown in the following demand and supply functions. Answer the questions below by providing graphical illustrations where necessary.

Demand function, $Qd = 5,000 - 10\,P$ Supply function, $Qs = 1,000 + 30\,P$

i. Find market equilibrium price and quantity of sugar in Sri Lanka

(04 marks)

ii. If Sri Lanka decided to import sugar from India for the price of Rs. 30 per kg, how much will be the quantity demanded and quantity supplied in Sri Lankan market?

(04 marks)

iii. If Sri Lanka impose 100% tariff per kg of imported sugar,

    a. How much will be the quantity demanded and quantity supplied in Sri Lanka?

(02 Marks)

    b. How much will be the government tariff revenue from sugar and the cost of protection?

(04 Marks)

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c. How much will be the trade effect?

<div align="right">(02 Marks)</div>

iv. Using the answers you obtained above, explain the way in which tariff helps to redistribute income.

<div align="right">(04 Marks)</div>

<div align="right">**(Total 20 marks)**</div>

5. i. Compare and contrast between the effects of an *import quota* and an equivalent *import tariff* (Graphical illustration is not required).

<div align="right">(06 Marks)</div>

ii. Briefly explain three (03) *non-tariff barriers* that discourage international trade.

<div align="right">(06 Marks)</div>

iii. "Over the past four decades, Japan was accused for dumping steel and television sets in the United States." Define the term *dumping* and explain the different ways in which dumping could be classified.

<div align="right">(08 Marks)</div>

<div align="right">**(Total 20 marks)**</div>

6. i. Define *economic integration* and briefly explain the types of economic integration.

<div align="right">(10 Marks)</div>

ii. Compare and contrast between *trade creating* and *trade diverting* customs unions.
(Graphical illustration is required)

<div align="right">(10 Marks)</div>

<div align="right">**(Total 20 marks)**</div>

7. i. "In almost every industry some countries perform better than most others."
Comment on the above statement with the use of appropriate theories related to national competitiveness.

<div align="right">(10 Marks)</div>

<div align="center">3</div>

ii. "Innovations provide the nation a temporary monopoly in the world market."

Comment on the above statement with the use of appropriate theories related to the life cycle of a product.

(10 Marks)

(Total 20 marks)

8. Briefly explain the following, in relation with international trade.

   i. Factor Intensity Reversal

   ii. Economies of Scale

   iii. Voluntary Export Restraints (VER)

   iv. Factor price equalization

   v. Intra Industry Trade

(04 x 5 Marks)

(Total 20 marks)