



University of Sri Jayewardenepura
Faculty of Humanities and Social Sciences

B.A. Third Year First Semester Examination- August/September 2017

Economics
ECON 3130.03 – International Trade Theory

Duration: 03 hours

Answer only five (05) questions. Hand writing must be clear.

01. i). "Mercantilists ideas were useful in success continuation of international trade between countries." Do you agree with this statement? Give reasons. (04 marks)
- ii). Comparative advantage theory is more logical than absolute advantage theory in explaining international trade between countries. Why is it? Explain. (04 marks)
- iii). Unit production costs (in rupees) of clothes and rice between Sri Lanka and India are given below.

	Sri Lanka	India
Clothes	1	4
Rice	2	3

- a) Show how the two countries find advantages from this international trade. (04 marks)
- b) If the exchange rate between two countries is 4 m of cloths and 6 kg of rice, how do the two countries gain from this exchange? (04 marks)
02. i). What is community indifference curve? Explain what its' relationship with international trade. (07 marks)
- ii). What are the significant features of new classical trade theory compared to the classical theory of international trade? Explain. (09 marks)

03. i). Examine the validity of the assumptions of Hecksher- Ohlin (H-O) model in explaining international trade. (06 marks)
- ii). Together with the conceptual framework of H-O theory, Show that the basis of international trade between countries is the factor endowment. (06 marks)
- iii). "H-O theory explains more practical matters of international trade" do you agree with this statement? Explain. (04 marks)
04. i). "Under increasing returns to scale, countries can increase the level of social welfare through international trade, even in a situation of no change in the price ratio". Review this statement using diagrams. (10 marks)
- ii). What is intra-industry trade? What are the reasons and how to measure the level of intra- industry trade? (06 marks)
05. i). Explain using diagrams, how the technological gap between countries is eliminated with international trade. (07 marks)
- ii). "A positive impact on terms of trade can be made through a technological progress towards importable product" Examine the validity of this statement. (09 marks)

06. i). Explain how a tariff on imports make negative social impact though it is imposed to protect domestic industries. (07 marks)
- ii). "When a capital abundant country imposes a tariff, the total welfare of the country will be decreased a due to the gains of workers is lower than the loss of capital owners." Explain this statement using an appropriate theory. (09 marks)
07. i). Explain the difference between import tariff and import quota. (05 marks)
- ii). How do you identify the effectiveness of export subsidy as an international trade policy? (05 marks)
- iii). Define what is dumping and explain how anti-dumping duties can be used to protect domestic industries. (06 marks)
