THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE IN SOCIAL SCIENCES – LEVEL 5
FINAL EXAMINATION (2007)
SSU 3204 – INTERNATIONAL TRADE & FINANCIAL RELATIONS

DURATION – THREE (03) HOURS

Date: 02nd October 2007   Time: 9.30 a.m. – 12.30 p.m.

Answer five (05) questions only. Each question carries 20 marks.

1. (i)   Briefly explain Labour Theory of Value?   (05 marks)

    (ii) According to Mercantilists, a country should always maintain a surplus in
          trade. Explain how the State can intervene in achieving this? Comment on
          the relevance of these policies in the present day context.   (15 marks)

2. (i)   Explain the main difference between Adam Smith's and Ricardian trade
          theories?

    (ii) Answer the following questions using the given table.

Country	Hours of labour required to produce	
	Cloths (1 yard)	Potatoes (1 kg)
India	5	4
Sri Lanka	6	8

          Suppose each country has 120 hours of labour to produce each of the
          commodities.
          (a)   Under 'autarky' system what is the total amount of world production?
                                                                            (04 marks)

   (b)   If trade is to take place on the basis of absolute advantage, how will the
                trade take place between two countries?   (05 marks)

          (c)   Can trade take place between the two countries on the basis of
                comparative advantage? If so what is the total world production?
                                                                            (06 marks)

3. (i)   Explain why a government should maintain a Balance of Payment account?
                                                                            (05 marks)

    (ii) Briefly explain;
          (a)   Invisible trade
          (b)   Transfers.   (05 marks)

    (iii) "A deficit in the BOP trade account is an unhealthy sign". Do you agree?
          Explain.   (10 marks)

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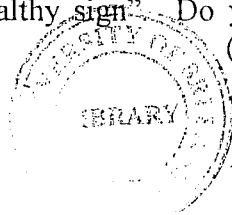
4. (i)   What is the basis for trade according to Hecksher-Ohlin Theory?   (05 marks)

    (ii) According to Hecksher-Ohlin Theory, how will the factor price ratios of two countries tend to equalise, with the development of trade? Explain with examples.   (08 marks)

    (iii) Suppose workers in France can produce 40 million barrels of wine and 20 million units of computers and the workers in UK can produce 20 million barrels of wine and 40 million units of computers.

          If two countries are characterised by constant opportunity cost and the trade ratio is 1:1, using Production Possibility Curves explain how the two countries can gain from specialisation.   (07 marks)

5. Write brief notes on the following.
    (i)   Long run dynamic gains of trade
    (ii) Price-Specie-Flow mechanism
    (iii) Customs Union
    (iv) Human Skills approach   (each 05 marks)

6. (i)   How is the exchange rate determined under Fixed Exchange rate system? What are the advantages and disadvantages of this?   (08 marks)

    (ii) Briefly explain the impact of continuous depreciation of the Sri Lankan rupee on the economy.   (12 marks)

7. (i)   What is the difference between a "Quota" and a "Tariff"?   (06 marks)

    (ii) Using illustrations explain the effects of import tariff on the domestic consumers and producers.   (14 marks)

8. (i)   What is meant by the Generalised System of Preference (GSP)?   (05 marks)
9.

    (ii) Why is it necessary to stabilize the prices of primary commodities? (05 marks)

    (ii) Explain how the stability in commodity prices is achieved under,
          (a)   Commodity Agreement
          (b)   Compensatory Financing Scheme.   (10 marks)

9. "Complete abolition of "Multi Fiber Agreement" has benefited the Developing Countries in general and Sri Lanka in particular". Do you agree? Explain.   (20 marks)

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