



University of Kelaniya – Sri Lanka

External Examinations Branch

**Bachelor of Commerce (Special) Degree Third Examination (External)- 2010
December 2011/ January 2012**

Faculty of Commerce and Management

BCOME 3054 – International Economics

No. of Questions: Six (06)

Time: 03 hours

Answer any five (05) questions only.

- (01) a) Why is the Production possibilities curve of each nation different?
(04 marks)
- b) Is trade be possible between two nations, if they have identical production possibility curves?
(04 marks)
- c) Under what conditions, trade can not take place between two nations with different production possibility curves?
(04 marks)
- d) By taking an example of two countries, two goods and one factor of production, illustrate the theory of comparative advantage.
(08 marks)
- (Total 20 marks)

(02) The following table shows the output per labour units in UK and USA.

Commodity	wheat	cloth
Country		
UK	03	02
USA	01	04

(each country has 250 labour units)

- a) If the labour force has equally divided among the wheat & cloth production industries, calculate production of each country & world's production.
(06 marks)
- b) Indicate in what commodity USA and UK have an absolute advantage.
(03 marks)
- c) Indicate in what commodity USA and UK have a comparative advantage.
(04 marks)

d) After the specialization according to comparative advantage, calculate world's production and gain from the international trade.

(07 Marks)
(Total 20 marks)

(03) a) Distinguish foreign currency devolution from depreciation.

(04 marks)

b) What are the economic consequences of currency depreciation.

(06 marks)

c) Imagin in 2010 price of US Dollar has increased from Rs. 100 to 125; According calculate the rate of currency appreciation or depreciation.

(04 marks)

d) What are the advantages and disadvantages of floating exchange rate system.

(06 marks)

(Total 20 marks)

(04) a) "Trade creating custom union always helps to increase the social welfare". Critically examine this statement.

(08 marks)

b) Why nations impose restrictions on free flow of international trade?

(06 marks)

c) Explain any two of the following form of economic integrations with examples.

i) Economic unions

ii) Free trade areas

iii) Preferential trade agreements

(06 marks)

(Total 20 marks)

(05) a) What is meant by the protectionism.

(04 marks)

b) Explain why trade protection may be justified in the case of dumping.

(04 marks)

c) What are the major international trade problems facing the world today.

(04 marks)

d) Briefly explain the changes in Sri Lankan export structure in the post independence period.

(08 marks)

(Total 20 marks)

(06) a) What do you mean by term “globalization”.

(06 marks)

b) What are the positive and negative impact of globalization.

(08 marks)

c) Explain why deficits nations in balance of payments are not willing to continue their deficit and surplus nations in balance payments are not willing to continue their surpluses.

(06 marks)

(Total 20 marks)