



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION

JANUARY 2016 SEMESTER

SUBJECT CODE	:	EEB21003
SUBJECT TITLE	:	INTERNATIONAL ECONOMICS AND TRADE
LEVEL	:	BACHELOR
TIME / DURATION	:	9:00 AM – 12:00 AM (3 HOURS)
DATE	:	26 MAY 2016

INSTRUCTIONS TO CANDIDATES

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1. Please read the instructions given in the question paper CAREFULLY.
 2. This question paper is printed on both sides of the paper.
 3. This question paper consists of TWO (2) sections; **Section A and section B.**
 4. **Answer ALL questions.**
 5. Please write your answers on the answer booklet provided.
 6. All questions must be answered in **English** (any other language is not allowed).
 7. This question paper must not be removed from the examination hall.
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THERE ARE THREE (3) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

SECTION A (Total: 40 marks)

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

Explain the benefits of free trade to the developing countries. Discuss THREE (3) reasons why many developing countries against free trade?

(20 marks)

Question 2

Differentiate the concept of inter-industry and intra-industry trade. Discuss THREE (3) benefits of intra-industry trade.

(20 marks)

SECTION B: (Total: 60 marks)

INSTRUCTION: Answer THREE (3) questions only.

Please use the answer booklet provided.

Question 1

b) Analyse the impacts on home country's welfare when a large country imposes a tariff on foreign imports. Draw a diagram and explain. Clearly label your graph.

(10 marks)

c) Evaluate the impacts on country's welfare if home country is a small country. Draw a diagram and explain. Clearly label your graph.

(10 marks)

Question 2

The following table shows the unit labour requirements for producing wine and car in the US and Malaysia. Assume there is no wage difference between the two countries, and there is no quality difference for the products that both countries produce.

Unit Labour Requirement		
	Wine	Car
The U.S	0.5 hour/litre	0.1 hour/unit
Malaysia	0.8 hour/litre	0.2 hour/unit

a) Calculate the opportunity cost of producing TEN litres of wine in the US and the opportunity cost of producing TEN litres of wine in Malaysia. Evaluate in which industry does the US enjoy the comparative advantage?

(10 marks)

b) First convert the table above into a table of labour productivity, i.e., instead of expressing the numbers in unit labour requirements, express them in terms of quantity of products that can be produced using 1 labour hour. Decide in which industry does the Malaysia enjoy the absolute advantage.

(10 marks)

Question 3

Home country's demand curve for banana is $D=120-3P$, and its supply curve for banana is $S=40+2P$. Home country is also one of the largest importers of bananas in the world. Its import demand curve is $MD=100-3P$; and it faces the following export supply curve, $XS=-10+5P$.

a) With free trade, determine the equilibrium price and trade volume.

(10 marks)

b) If home country imposes an ad valorem tariff of 20% on foreign banana imports, determine the new trade volume. Explain how tariff by home country has changed the world banana price.

(10 marks)

Question 4

Decide whether the following statements are true or false and justify why.

a) Malaysia is more productive than Thailand in producing both computers and corn, so there is nothing to be gained from international trade between the two countries.

(10 marks)

b) The reason that prices in developing countries are generally lower than developed countries is the labour productivity in developing countries is much lower in both tradable and non-tradable sectors.

(10 marks)

[Total: 100 marks]

END OF QUESTION PAPER