UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2024 SEMESTER

COURSE CODE	:	EEB21003
COURSE NAME	:	INTERNATIONAL ECONOMICS AND TRADE
PROGRAMME NAME	:	BACHELOR OF BUSINESS ADMINISTRATION (HONS) INTERNATIONAL BUSINESS
DATE	:	3 JULY 2024
TIME	:	2.00 PM – 5.00 PM
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES

1. **Please CAREFULLY read the instructions given in the question paper.**
2. **This question paper has information printed on both sides of the paper.**
3. This question paper consists of **FIVE (4) MAJOR** questions in Section A.
4. Answer **ALL** questions.
5. Please write your answers on the answer booklet provided.
6. Begin answering **EACH MAJOR QUESTION** on a **NEW PAGE** of the answer booklet.
7. All questions must be answered in **English** (any other language is not allowed).
8. **This question paper must not be removed from the examination hall.**

THERE ARE FIVE (5) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

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SECTION A (Total: 100 marks)

INSTRUCTION: Answer ALL questions in the answer booklet provided.

Question 1

(a) Mercantilism is one of the classical models of international trade. Briefly explain the goal of mercantilist system.

(5 marks)

(b) Assume that the world consists of two countries, Home country (H-cty) and Foreign country (F-cty). Both countries produced and consumed only two products, good-X and good-Y. The wage rate for H-cty is W_H per hour and W_F per hour in F-cty. W_H and W_F are all in the same unit of currency. Use the information in Table 1.(b) on labor productivities in H-cty and F-cty to answer questions (i) through (v).

Table 1.(b):

	H-Cty	F-Cty
	Labor hours/unit of product	
Good-X	9	8
Good-Y	18	4

i. Which country has absolute advantage in which good and why? Explain your answer.

(4 marks)

ii. What is the relative price of good-X in H-cty and F-cty in autarky? Explain your answer.

(4 marks)

iii. Which country has comparative advantage in which good and why? Explain your answer.

(4 marks)

iv. What are the upper and lower bounds (range) for the term of trade of good-X? Explain your answer.

(4 marks)

v. What are the gains from specialization for each country? Show your work.

(4 marks)

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Question 2

(a) Explain the difference between Ricardo's model of trade and Adam Smith's.

(5 marks)

(b) What does the Heckscher-Ohlin theory say about the pattern of trade?

(5 marks)

Question 3

(a) Explain the difference between ad valorem, specific and compound tariff.

(6 marks)

(b) Briefly describe the major types of nontariff barriers.

(5 marks)

(c) Figure 3.(c) below represents a case of a small nation opened to foreign trade. Its imports constitute a small portion of the world market supply. This small nation would be a price taker, facing a constant world price level P^W for it imports commodity, autos.

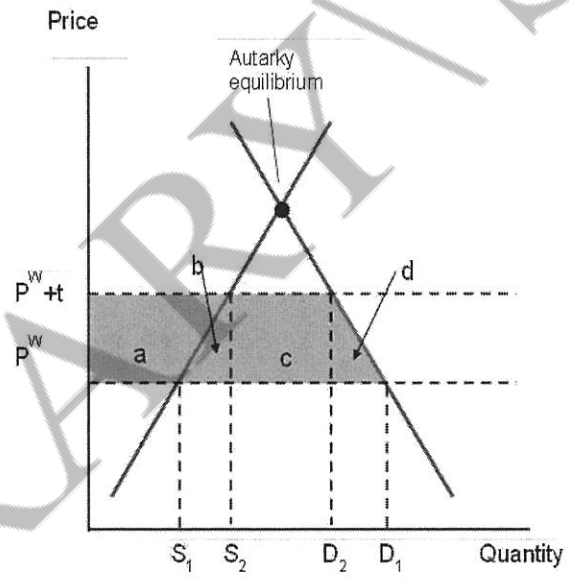

Figure 3.(c)

The world auto price is NR8,000, where NR is the currency unit of the country. Assume that the nation imposes a tariff, *t* of NR1,000 on auto imports. In the figure S_1 = 20 units, S_2 = 40 units, D_1 = 80 units and D_2 = 60 units. Answer the following questions:

i. What is the price effect due to tariff?

(2 marks)

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ii. Determine the number of autos imported by the nation before and after the tariff was imposed. Show your work.

(2 marks)

iii. What is the government revenue effect? Show your work.

(2 marks)

iv. Calculate the consumer and producer surplus effects. Show your works.

(4 marks)

v. What is the net welfare gain or loss to the nation as a result of the tariff NR? Show your work.

(4 marks)

Question 4

(a) What is meant by the balance-of-payments?

(5 marks)

(b) What is the difference between a credit transaction and a debit transaction in the balance of payments?

(5 marks)

(c) Indicate how the following transactions enter into Home-country balance of payments with double-entry bookkeeping:

i. A Home-country resident purchases a USD1,000 foreign stock and pays for it by drawing her bank balances abroad.

(5 marks)

ii. A Home-country's company sells a lithography machine in Europe and receives 500,000 euros in exchange.

(5 marks)

Question 5

(a) What are the major types of transactions or activities that result in demand for foreign currency in the spot foreign exchange market?

(5 marks)

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(b) i. What is arbitrage and how does it impact the exchange rate across foreign exchange markets?

(5 marks)

ii. Suppose the price of 1£ is 1.69USD in New York and 1.71USD in London. How can a foreign exchange arbitragers profit from these exchange rates and how foreign exchange arbitrage results in the same USD/pound exchange rate in New York and London? Explain and show your work.

(5 marks)

(c) Suppose that the spot rate (SR) for pound, in terms of USD is SR = 2USD/ 1£ and the 3-month forward rate (FR) for pound is FR = 1.96USD/1£. How can an importer who will have to pay 10,000£ for her imports in three months hedge the foreign exchange risk?

(5 marks)

END OF EXAMINATION PAPER

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