Dec 2013

INDIAN INSTITUTE OF MATERIALS MANAGEMENT

Post Graduate Diploma in Materials Management

Graduate Diploma in Materials Management

PAPER No. 7

International Trade

Date: 16.12.2013 **Max. Marks: 100**

Time: 10.00 a.m. to 1.00 p.m. **Duration: 3 Hrs.**

Instructions:

1. From Part A – answer all questions (compulsory). Each sub questions carries 1 mark. **Total: 32 Marks**
2. From Part B – Answer any 3 questions out of 5 questions. Each sub-question carries 16 marks. **Total : 48 Marks**
3. Part C is a case study (compulsory) with questions. Read the case study carefully and answer the questions. **Total: 20 Marks**
4. Please read the instructions given in the answer sheet.

Part – A **32 Marks**

(Attempt all questions Each sub questions carries 1 mark.)

1. **Select the correct option:**
   a. When countries produce goods or services in amounts they are unable to use/consume at home, this is called a…
      i. Production overstock.
      ii. Production excess.
      iii. Production surplus.
      iv. Production reserve.
   b. Which of the following is NOT a reason why nations export?
      i. Some nations produce more goods or services than can be consumed at home.
      ii. Some nations are able to sell goods or services to other nations at higher prices than they can obtain domestically.
      iii. For some nations, especially developing countries, export can serve the purpose of earning foreign currency with which they can buy essential imports.
      iv. For some nations, export can halt the fluctuation of the national currency.
   c. _____ countries tend to export a much wider range of products than _____ countries.
      i. Developing, industrial
      ii. Industrial, developing
      iii. Developing, developed

iv. None of the above

d. Which of the following statements is UNTRUE?

   i. A country's trade balance is the difference between the amount of that country's imports and exports of goods and services in a given year.

   ii. When a country's total annual exports exceed its total annual imports, it is said to have trade surplus.

   iii. When a country's total annual imports exceed its total annual exports, it is said to have trade surplus.

   iv. When a country's total annual imports exceed its total annual exports, it is said to have trade deficit.

State True or False:

e. Trade is a modern invention.

f. When the exchange rate is taken into consideration, prices do not vary among countries.

g. Governments have traditionally tried to manage trade flows by encouraging exports and restricting imports.

h. Tariffs are taxes that are traditionally imposed upon exported goods upon their departure out of the country.

2. Match the following:

Column "A"	Column "B"
a. Balance of trade	i. eliminate tariffs on goods traded
b. Capital Goods	ii. Low income and middle income economies
c. Comparative advantage	iii. creations of the mind
d. Customs Union	iv. barriers to the importation of goods and services from foreign countries
e. Developing countries	v. Plants and heavy equipment
f. Dumping	vi. difference between a country's total imports and exports
g. Intellectual property	vii. lowest opportunity cost
h. Protectionism	viii. Export at a price lower than the price charged in the home market

3. Fill in the blanks:

a. Countries _______ goods or services if essential goods or services are not naturally available or cannot be produced at home.

b. _______ states that all countries gain from trade with each other, regardless of how capacious they are in labor, capital and land, and regardless of how efficiently they can produce any particular good.

c. In economic terms, the amount of good or service that is sacrificed in order to produce an alternative good or service is known as _______.

d. _______ represent an expenditure of future growth, since investment in future growth is being traded for consumption in the present.
e. _______ are a list of taxes or customs duties payable on imports or exports.
f. _______ introduces us to the idea that technological differences across countries matter.
g. The Heckscher-Ohlin model shows how _______ form the basis for trade.
h. When a country's total annual imports _______ its total annual exports, it is said to have trade deficit.

4. Give the full forms:

a. GNI	b. WTO	c. FTA	d. NAFTA
e. NTB	f. PPF	g. GDP	h. FPE

Part – B (answer any 3) 48 marks

5. What were the mercantilists' views on trade? How do they relate to current proponents of protectionism?
6. Are bilateral trade negotiations superior to multilateral negotiations? Explain.
7. What are the political and economic ramifications associated with WTO and NAFTA? Discuss.
8. a. Why are trade deficits and foreign investments politically sensitive issues and perceived to be by some individuals an economic problem?
   b. Summarize and critically analyze the pro and con points of free trade.

9. Write short notes on **ANY TWO** of the following:
   a. Ricardian model
   b. Foreign Direct Investment
   c. Balance of Payment

Part – C (compulsory)

10. NEC, a Japanese computer and electronics manufacturer, announced it was moving out of Scotland to gain cost advantages in China. These cost advantages included not only labour, but also taxes, because the company would be operating within a special Chinese economic zone. The move stranded its Scottish employees, particularly since other companies in the area, such as Coats, Motorola, and Mayflower, had recently moved facilities from Scotland to China as well. Similarly, two U.S. companies, Coastcoast and Cast Alloys, moved golf club production from Mexico to China to reduce production costs. Many critics of FDI argue that it is unethical for governments to lure companies away from existing locations by offering lucrative incentives. (Incentives are often much greater than the tax breaks offered by China.) These critics also argue that it is unethical for companies to accept them. Companies say that their response to more favourable conditions – such as incentives, taxes, and regulations – is necessary because competitors are bound to take advantage of these conditions. Do governments in countries where a company is already located

have any ethical obligations – especially if their policies, such as environmental regulations or high taxes, burden producers? On the one hand, direct investment may lead to better global use of resources and will employ labourers from developing countries who otherwise may not find work. On the other hand, it is the newly unemployed workers who suffer if they lose their jobs and cannot easily find new ones. For these employees, there is little solace in the economic gains that go to previously unemployed workers abroad or the lower consumer prices or higher corporate earnings resulting from the foreign production. Some people argue that the plight of these newly unemployed workers is no different from the results of technological change, such as when workers in clothespin factories lost their jobs with the invention of the electric clothes dryer. Other people argue that displacement from FDI is different because the workers can seldom move abroad to take advantage of the new opportunities there and because their employers are responsible for the job losses. They argue that the company has an ethical obligation to give employees advance notice of the move and to provide training and help with job searches.

Questions:

a. What are the ethical issues involved in the situation discussed in the given case study? Explain. (**6 marks**)
b. Do you agree that countries are wrong in luring companies by offering incentives and tax benefits? Give reasons in support of your answer. (**6 marks**)
c. Who do you feel should be held responsible for the unemployment created because of relocation of a company in the given situation – the company itself, the current country, or the country to which the company is relocating? Discuss. (**8 marks**)

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