International Islamic University Chittagong

Department of Economics & Banking

Final-term Examination: Spring-2023

Program: MSS in Economics and Banking

Course Code: FIN-5301 | Course Title: International Trade & Finance

Time: 3 Hours | Full Marks: 50

Answer the following questions. All parts of a question must be answered sequentially. Figures in the right margin indicate full marks.

1. (a) "Being able to give or to arrange finance as part of an export transaction is increasingly important", justify the statement. 3

   (b) Distinguish between pre-shipment finance and supplier credit. 3.5

   (c) Explain how factoring and forfaiting can be used as a means of refinancing for suppliers in international trade. 3.5

2. (a) "Through the terms of payment, the objective of both parties is to optimize the outcome and profitability of the transaction within the framework of an established and acceptable risk level", justify the statement. 3

   (b) What factors should be considered when determining the terms of payment in international trade, and how do these elements contribute to ensuring a smooth financial arrangement between the buyer and seller? 7

3. (a) Evaluate international monetary system. 3

   (b) Explicate the role of IMF to maintain international monetary system. 3.5

   (c) Describe the process that the International Monetary Fund uses to distribute loans. 3.5

4 (a) If apples are cheap in the US, countries will buy them from the US. The question is, why are they cheap? 3

   (b) Under Ricardian model,explain how both countries gain from trade using the following equation: 7

   (Here: $P_W = Price\ of\ wheat\ and\ P_c =$
   $Price\ of\ chease.\ *\ indicates\ foreign\ country$

$$\frac{P_W}{P_c} = \frac{P_{W*}}{P_c *}$$

5 (a) "Opening up to trade increases the relative price of cloth in an economy 4

whose relative supply of cloth is larger than for theworld as a whole",
explain this under specific factor model.

(b) Derive the following equation and illustrate the changes in factors rewards due to changes in price under specific factor model. 6

$$p_C MPL_C (L_C/K) > p_F MPL_F ((L - L_C)/T)$$

(Here: $P_c = Price\ of\ cloth,$
$MPL_c = Marginal\ product\ of\ labour\ for\ cloth,\ L_c = Labor\ for\ cloth,$
$K = Capital,\ P_f = Price\ of\ food,$
$MPL_f = Marginal\ product\ of\ labour\ for\ food, L = Total\ labor, T =$
$land.$