UNIRAZAK
UNIVERSITI TUN ABDUL RAZAK

FINAL EXAMINATION
NOVEMBER 2023

COURSE TITLE	**INTERNATIONAL ECONOMICS**
COURSE CODE	TECO3413
DATE/DAY	14 FEBRUARY 2024 / WEDNESDAY
TIME/DURATION	09:00 AM - 11:00 AM / 02 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of **3** Printed Pages including front page)

DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO

This question paper consists of THREE (3) questions. Answer ALL questions in the answer booklet provided. **[100 MARKS]**

QUESTION 1 (40 Marks)

Malaysia and Thailand produce only two goods, i.e., durian and computers. Table 1 below shows the labour hours used to produce a tonne of durians and a unit of computer for Malaysia and Thailand, respectively.

Table 1: Labour Productivity

	Computer	Durian
Malaysia	4	5
Thailand	6	4

a) Determine which country has absolute advantage to produce computer and durian, respectively. (5 marks)

b) According to the Ricardian Trade Theory, identify the respective country that should export computer and durian and explain why. (10 marks)

c) Suggest a plausible term of trade that will allow both countries to trade. (3 marks)

d) Explain why both countries will agree to the term of trade suggested in part (c) above. (10 marks)

e) Based on your opinion, what are the limitations or weaknesses of the Ricardian Trade Theory. Justify your answer. (12 marks)

QUESTION 2 (30 Marks)

You are given the following information about a Country's XYZ international transactions during a year:

	RM
Exports of Goods and Services	250
Imports of Goods and Services	100
*Net Investment Income Received	-20*
*Net Current Transfers	-8*
**Increase in the country's holding of foreign assets, net (excluding official reserve assets)	-10**
Increase in foreign holdings of the country's assets, net (excluding official reserve assets)	220
Statistical discrepancy	-4

(Note: the negative signs above do not indicate whether the respective transactions are of credit or debit nature. *Indicate outflows are more than inflows, while ** indicate disposal of foreign assets is more than acquisition of foreign assets.)

a) Calculate the country's:

    i.   Balance of trade   (3 marks)

    ii.   Current account balance   (6 marks)

    iii.   Official settlements balance   (6 marks)

    iv.   The change in official foreign reserve   (3 marks)

b) What type of exchange rate mechanism is Country XYZ likely to practice given its drastic increase in official foreign reserve? Explain your answer.   (12 marks)

QUESTION 3   (30 Marks)

a) As the United States persistently increased its interest rate, Malaysia's capital market suffered a severe form of capital flight as foreign along with domestic capital pursue higher return offered by the capital market of the United States. This has caused a drastic depreciation of Ringgit Malaysia.

    i. Explain what adjustments will take place in the balance of payment of Malaysia and the United States to account for the capital flight from Malaysia to the United States   (5 marks)

    ii. Theoretically, if Malaysia were to practice floating exchange rate regime, then the capital flight will cause no changes to the official foreign reserve. Explain what balancing adjustment(s) need to follow after the capital flight has taken place so that the official foreign reserve remains unchanged.   (8 marks)

    iii. Based on the Impossible Trinity, if Malaysia were to implement fixed exchange rate to stop the depreciation of Ringgit Malaysia, while at the same time wish to maintain low interest rate to stimulate the economy, then what sort of flexibility that Malaysia necessarily needs to give up.   (8 marks)

b) Arif has two investment options over a one-year horizon. He can invest domestically and earn an interest rate of 5% p.a. or he can convert his savings into USD and invest in the US capital market to earn an interest rate of 3.5% p.a. The prevailing exchange rate is 1USD = RM4.35.

    Determine how much the forward exchange rate should be so that Arif is indifferent between the two investment options.   (9 marks)

*** **END OF QUESTION PAPER** ***