MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF ARTS

EAE 307: INTERNATIONAL ECONOMICS 1

DATE: 25/3/2021 **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

(i) Answer question one (Compulsory) and any other two questions

(ii) Do not write on the question paper

(iii) Show your working clearly

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Clearly distinguish between Free Trade and Dumping (2 marks)

b) Explain the product cycle theory of trade (6 marks)

c) Explain how role of tastes, role of trade barriers and classification of inputs have modified the H-O model to explain patterns of trade (6 marks)

d) Explain how Mercantilists achieved their objectives (5 marks)

e) Explain the effect of a quota on International Trade with help of a well labeled diagram (8 marks)

f) State three main impulses that trigger import substitution strategy in developing countries (3 marks)

QUESTION TWO (20 MARKS)

a) Explain four main reasons why countries impose tariffs (4 marks)

b) Kenya specializes in the production of Maize and Uganda specializes in the production of Bananas. The two countries use labor as the only factor of production. Using well labeled diagrams, demonstrate the free trade equilibrium for Kenya and Uganda. (Assume fixed costs). (10 marks)

c) Explain three main types of dumping (6 marks)

QUESTION THREE (20 MARKS)

a) i Define "Terms of Trade" (2 marks)

ii A country's terms of trade and imports is as shown in the table below:

Terms of Trade	**Demand for Imports**	**Supply of Exports**
1X: 1Y or $P_X/P_Y = 1$	20 Units	-
1X: 2Y or $P_X/P_Y = 2$	32 Units	-
1X: 3Y or $P_X/P_Y = 3$	90 Units	-
1X: 4Y or $P_X/P_Y = 4$	140 Units	-

I. Calculate the country's respective exports (2 marks)

II. Show the country's Offer Curve in a well labeled diagram (6 marks)

b) Tanzania specializes in the production of Avocados and Ethiopia specializes in the production of Oranges. The two countries use labor as the only factor of production. Using well labeled diagrams, demonstrate the international free trade equilibrium for Tanzania and Ethiopia. (Assume increasing costs). (10 marks)

QUESTION FOUR (20 MARKS)

a) Explain the Imitation Lag Theory of Trade (8 marks)

b) Explain Paul Samuelson's Factor Price equalization theory (1948) (8 marks)

c) Explain the Leontief Paradox (4 marks)

QUESTION FIVE (20 MARKS)

a) Using a well labeled diagram explain welfare effect of a tariff on a small country. (8 marks)

b) Use modern concept of opportunity cost to explain the theory of comparative advantage (6 marks)

c) Explain various beliefs of Mercantilism theory (6 marks)