



MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

THIRD/FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE AGRIBUSINESS MANAGEMENT

BACHELOR OF EDUCATION SCIENCE

KBT 420: INTERNATIONAL AGRICULTURAL TRADE

DATE: 18/12/2017

TIME: 2.00-4.00 PM

Instructions:

Answer ALL questions in section A and ANY TWO questions in section B

SECTION A

QUESTION ONE (20 MARKS)

- a) Differentiate between the following terms used in international trade
- i. Bound tariff and ad-valorem tariff (2 marks)
 - ii. Closed economy and open economy (2 marks)
 - iii. Import substituting industrialization and export subsidy (2 marks)
 - iv. Outsourcing and off-shoring (2 marks)
 - v. Autarky and trade barrier (2 marks)
- b) Explain two differences between the classical trade models and new theory of trade (4 marks)
- c) Using the Leontief paradox, explain why Kenya may import a labor intensive good (5 marks)
- d) Describe the process of economic integration (5 marks)

- e) Two nations (A and B) produce cloth using imported cotton fibre. Assume the world prices of cloth and cotton fibre are \$50 and \$30 respectively. The table below shows tariff rates in both countries. Show which producers are more protected. (6 marks)

| Nation | Duty on cotton fibre (%) | Import tariff on cloth (%) |
|--------|--------------------------|----------------------------|
| A | 16 | 29 |
| B | 28 | 35 |

SECTION B

QUESTION TWO (20 MARKS)

- a) The table below shows some statistics for an East African country between 2011 and 2015.

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------------|------|------|------|------|------|
| Export price index | 298 | 264 | 272 | 262 | 264 |
| Current account balance (Billions) | -339 | -356 | -417 | -426 | -527 |
| Import price index | 350 | 314 | 336 | 332 | 360 |

- i. Comment on the trend of terms of trade over the 5-year period (5 marks)
 - ii. Describe the status of the country's balance of payment (2 marks)
 - iii. Explain three measures the country can take to improve the status in (ii) above (3 marks)
- b) Mercantilism is an archaic philosophy with no application in modern international trade policy or practice. Critically analyze this statement giving relevant examples (10 marks)

QUESTION THREE (20 MARKS)

- a) Export of agricultural commodities hurts the economy of the exporting nation and should be discouraged. Using appropriate illustrations, explain why you would agree or disagree with this statement (12 marks)
- b) To reduce unemployment in Kenya, the country should adopt a policy that encourages massive investments by large multinational corporations locally, and export of the country's labor. Explain eight potential demerits of such a policy (8 marks)

QUESTION FOUR (20 MARKS)

a) The table below shows production possibilities for two goods in two countries.

| | Scenario A | | Scenario B | | Scenario C | |
|-----------------|------------|----------|------------|----------|------------|----------|
| | Country1 | Country2 | Country1 | Country2 | Country1 | Country2 |
| Wheat (Kg/hour) | 360 | 90 | 270 | 180 | 180 | 360 |
| Sugar (kg/hour) | 90 | 180 | 360 | 90 | 135 | 270 |

In each scenario, identify which country:

- i. Has an absolute advantage for each good (3 marks)
 - ii. Has a comparative advantage for each good (3 marks)
 - iii. Should export each good to the other country (3 marks)
- b) Describe the key items covered in the following WTO trade agreements:
- i. The Bali package (5 marks)
 - ii. The Agreement on Agriculture (6 marks)

QUESTION FIVE (20 MARKS)

- a) Tariffs on sugar import are good for Kenya and should be encouraged. With the aid of a diagram, critically analyze this statement (12 marks)
- b) Explain the key finding of each component of the Heckscher-Ohlin model of trade (8 marks)