MACHAKOS UNIVERSITY

University Examinations for 2024/2025 Academic Year

SCHOOL OF AGRICULTURE, ENVIRONMENT AND HEALTH SCIENCES

DEPARTMENT OF AGRICULTURAL SCIENCES

THIRD YEAR FIRST SEMESTER EXAMINATION FOR
BACHELOR OF SCIENCE AGRIBUSINESS MANAGEMENT AND TRADE

AGB 305: INTERNATIONAL AGRICULTURAL TRADE

DATE:21/1/2024 **TIME:8:30-10:30 A.M**

Instructions: Answer **Question1** and **ANY** other **TWO**. Show your working where applicable.

QUESTION ONE (30 MARKS)

a) Differentiate between the following terms used in international agricultural trade
   i. Outsourcing and off-shoring (2 marks)
   ii. Bound tariff and ad-valorem tariff (2 marks)
b) Explain two benefits of Africa's regional trading bocks to member countries (2 marks)
c) Describe three forms of dumping of agricultural commodities (3 marks)
d) Describe the Leontief paradox (4 marks)
e) Explain two non-tariff barriers that may limit Kenya from selling some of her agricultural commodities in other countries (4 marks)
f) Explain how trade between nations occurs using the following models:
   i) The theory of absolute advantage (2 marks)
   ii) The technological gap model (3 marks)
g) Explain how Kenya's agricultural trade would be affected by her policies below:
   i) Devaluation of the Kenya Shilling (2 marks)
   ii) Overvaluation of the Kenya Shilling (2 marks)
h) Explain four factors that determine terms of trade between nations (4 marks)

QUESTION TWO (20 MARKS)

a) Explain the key finding of each component of the Heckshcer-Ohlin model of trade (8 marks)

b) Using an appropriate diagram, explain the welfare effects to be experienced in Kenya if the country continues to participate in exportation of agricultural commodities. (12 marks)

QUESTION THREE (20 MARKS)

a) To reduce unemployment in Kenya, the country should adopt a policy that encourages massive investments by large multinational corporations locally. Explain five potential demerits of such a policy
(10 marks)

b) The table below shows trade statistics for nation *z* between 2017 and 2021.

Year	2017	2018	2019	2020	2021
Export price index	150.4	151.1	145.1	142.6	157.7
Current account balance (Billions)	-593.5	-505.4	-536.3	-510.1	-663.8
Import price index	199.1	222.1	213.4	190.3	215.2

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)

QUESTION FOUR (20 MARKS)

a) Elements of Mercantilism are still evident in modern international agricultural trade policy and practice. Explain why you would agree or disagree with this view. (11 marks)

b) 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)	20	5	15	10	10	20
Sugar (kg/hour)	5	20	20	5	7.5	15

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)

QUESTION FIVE (20 MARKS)

a) Describe the key items covered in the following WTO trade agreements:

   i. The Agreement on the application of Sanitary and Phytosanitary measures (3 marks)

   ii. The Bali package (5 marks)

   iii. The Agreement on Agriculture (6 marks)

b) Two countries produce shoes using imported leather. The world prices of shoes and leather are \$30 and \$14 respectively. The table below shows tariff rates in both countries. Using the effective rate of protection, show which country's producers are more protected. (6 marks)

Country	Duty on leather (%)	Import tariff on shoes (%)
1	20	38
2	28	4