MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF ECONOMICS AND FINANCE

EAE 307: INTERNATIONAL ECONOMICS 1

DATE: 2/8/2016 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS

Answer Question One and Any Other Two

QUESTION ONE

a) Describe the doctrine of mercantilism and explain why it has been presented by the classical economists as a poor approach in promoting economic development and prosperity. (10 marks)

b) Use the modern concept of opportunity cost to explain Ricardo's theory of comparative advantage. (8 marks)

c) What are the flaws in Adam Smith and Ricardo's theories when applied to reality in Kenya today? (6 marks)

d) List resources (or endowment) in which Kenya has an absolute advantage over other countries, which are potential or actual trading partners. Give reasons for each resource cited. (6 marks)

QUESTION ONE

a) Define the following terms: (10 marks)

i) Mercantilism

ii) Specie – flow mechanism

iii) Zero-sum game in trade

iv) Autarky

v) Community indifference curve

b) In what way is dumping a close cousin of subsidies. (5 marks)

c) Explain how the concept of opportunity cost is used to determine how a country can specialize in a particular line of production. (5 marks)

QUESTION THREE

a) Globalization in trade has implications on policy making powers of a country, sovereignty of countries, consumption patterns/tastes etc all of which have negative and positive effects on society. Discuss the pros and cons of globalization as advanced by the world trade organization. (8 marks)

b) i) What is a tariff. (2 marks)

ii) Give four reasons why countries impose tariffs. (5 marks)

iii) Differentiate between export tariffs and import tariffs. (5 marks)

QUESTION FOUR

a) Which assumptions does Heckscher and Ohlin adopt in addition to the six Ricardian model assumptions to develop their H-O model. (10 marks)

b) Use algebraic terms and graphs examples to show that country A is capital abundant relative to country B. (5 marks)

c) What is the Leontief Paradox? Explain your answer in detail. (5 marks)

QUESTION FIVE

a) Are the arguments advanced by precursor proponents of the infant industry argument still relevant to developing countries today. (7 marks)

b) Define effective rate of protection (ERP) (3 marks)

c) What are the advantages of:

   i) Specific tariff (5 marks)

   ii) Ad Valorem tariff (5 marks)