



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF ECONOMICS

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 307 INTERNATIONAL ECONOMICS I.

DATE:

TIME:

INSTRUCTIONS:

- (i) This examination consists of Five questions.
- (ii) Answer question one (Compulsory) and any other two questions.
- (iii) Abide by all rules and regulations concerning this exam carefully.
- (iv) Follow the guidelines on submission of exam script to the letter.
- (v) Violating any of the rules is an exam irregularity and may lead to discontinuation from the University.

QUESTION ONE (COMPULSORY) (30 MARKS)

a) The equation for the demand and supply curves for writing paper in Kenya are:

Demand: $P = 700 - 2Q_D$ Supply: $P = 40 + 0.2Q_S$

- (i) Calculate the equilibrium price and quantity if there is no international trade. (3 marks)
- (ii) Calculate the equilibrium quantities for Kenya if the nation can trade freely with the rest of the world at a price of 120. (2 marks)
- (iii) Describe the effect of the shift from autarky to free trade on the Kenyan consumer surplus. (2 marks)
- (iv) What is the net national gain or loss for Belgium because of this trade? (3 marks)

b) Kenya specializes in the production of Avocados and Tanzania 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 Kenya and Tanzania (Assume increasing costs). (10 marks)

c) Discuss the role of taste in determining comparative advantage. (10 marks)

QUESTION TWO (20 MARKS)

- a) Suppose Burundi specializes in the production of cassava and Tanzania specializes in the production of maize .With the aid of well labeled illustrations describe how the two countries offer curves are obtained. (10 marks)
- b) Describe the Heckscher-Ohlin Theorem. (5 marks)
- c) Explain Paul Samuelson's factor price equalization theory. (5 marks)

QUESTION THREE (20 MARKS)

- a) Explain the Imitation Lag Theory of Trade (7 marks)
- b) Highlighting six (6) positive contributions of internal trade. (3 marks)
- c) Describe the Ricardian model. (5 marks)
- d) Explain the following non-tariff barriers. (5 marks)
 - i. Counter-veiling Duties
 - ii. Administrative and Technical Standards

QUESTION FOUR (20 MARKS)

- a) Using the Modern Concept of opportunity Cost, explain the Theory of Comparative advantage. (8 marks)
- b) Explain the main doctrine of mercantilist theory. (6 marks)
- c) Explain the product cycle theory of trade . (6 marks)

QUESTION FIVE (20 MARKS)

- a) Suppose that both the US and Canada have the factor endowments listed in the table below.
Suppose that the production requirement for one unit of steel is two machines and 8 workers, while the production requirement for one of bread is one machine and 8 workers.

	US	Canada
Capital	40 machines	10 machines
Labor	200 workers	60 workers

- (i) Which good, bread or steel, is relatively capital intensive in production? In Labor? Show how you determine this. (3 marks)
- (ii) Which country will export bread? Steel? Why? Show how you determined this. (3 marks)
- (iii) Explain what happens to the returns of capital and labor in the US and Canada after trade begins. (3 marks)
- (iv) Suppose that the US wants to achieve import-replacing (anti-trade or ultra anti-trade) growth. What change in its endowments would achieve this growth? (3 marks)

- b) In the context of national welfare, prove free trade is preferred to autarky. Provide graphical support to your answer. (8 marks)