



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

- Comment on the trend of terms of trade over the 5-year period (5 marks)
 - Describe the status of the country's balance of payment (2 marks)
 - 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)