MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF ECONOMICS

THIRD YEAR FIRST SEMESTER FOR DEGREE OF BACHELOR OF ECONOMICS

EAE 307: INTERNATIONAL ECONOMICS

DATE: 31/7/2017 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Using mercantilist theory on protectionism explain how the Kenya government can protect its local industries. (10 marks)

b) Compare and contrast the Adam smith and Ricardo's theories and show their application in Kenya. (20 marks)

QUESTION TWO (20 MARKS)

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. (10 marks)

b) Describe the Leontief Paradox (10 marks)

QUESTION THREE (20 MARKS)

a) What are the main reasons for imposing a tariff by a small country? (8 marks)

b) Using a graph, show the welfare effects of imposing a tariff by a small country. (6 marks)

c) Explain why tariffs are still used by small countries despite the fact that economic theory does not show net positive effects for the imposing country. (6 marks)

QUESTION FOUR (20 MARKS)

a) Use the concept of opportunity cost to explain in numeric terms the Ricardian model. (10 marks)

b) Using graph show how the effects of a production subsidy differ from those of a quota, in protecting an infant industry. (10 marks)

QUESTION FIVE (20 MARKS)

a) Identify and write short notes on the alternative theories of trade. (12 marks)

b) Explain price and factor endowment determines International Trade. (8 marks)