



MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF AGRICULTURE AND NATURAL RESOURCES MANAGEMENT

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

**FOURTH YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF SCIENCE
AGRIBUSINESS MANAGEMENT**

KBT420: INTERNATIONAL AGRICULTURAL TRADE

DATE: 31/7/2017

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Answer Question One and ANY TWO other questions. Question One carries 30 marks while the other questions carry 20 marks each.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Define the following terms used in international trade
 - i) Autarky (1 mark)
 - ii) Trade barrier (1 mark)
 - iii) Import substituting industrialization (1 mark)
- b) Differentiate between the following terms used in international trade
 - i) Closed economy and open economy (2 marks)
 - ii) Trade deficit and trade surplus (2 marks)
 - iii) Outsourcing and off-shoring (2 marks)
 - iv) Bound tariff and ad-valorem tariff (2 marks)
- c) Describe three forms of dumping of goods (3 marks)
- d) Describe the Leontief paradox (3 marks)
- e) State the main arguments in the gravity model of trade (4 marks)

- f) Explain four factors which confer to nations advantages to trade internationally. (4 marks)
- g) Describe the process of economic integration (5 marks)

QUESTION TWO (20 MARKS)

- a) Import of agricultural commodities hurts the economy of the importing nation and should be discouraged. Using appropriate illustrations, explain why you would agree or disagree with this statement. (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)	240	60	180	120	120	240
Sugar (kg/hour)	60	120	240	60	90	180

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 THREE (20 MARKS)

- a) Mercantilism is an archaic philosophy with no application in modern international trade policy or practice. Critically analyze this statement giving relevant examples. (10 marks)
- b) The table below shows some statistics for Kenzania 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

- 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) 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 (Kelbania and Banania) produce instant coffee using imported coffee beans. Assume the world prices of instant coffee and coffee beans are \$55 and \$32 respectively. The table below shows tariff rates in both countries. Show which producers are more protected. (6 marks)

Country	Duty on coffee beans (%)	Import tariff on instant coffee (%)
Kelbania	15	28
Banania	25	30

QUESTION FIVE (20 MARKS)

- a) Explain the key finding of each component of the Heckscher-Ohlin model of trade. (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)