MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 307: INTERNATIONAL ECONOMICS I

DATE: 25/9/2019 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

(i) **Answer question one (Compulsory) and any other two questions**

(ii) **Do not write on the question paper**

(iii) **Show your working clearly**

QUESTION ONE (COMPULSORY) (30 MARKS)

a) (i) Distinguish between International trade and International finance (6 marks)

(ii) Explain the challenges of Mercantilist Doctrine as given by David Hum (4 marks)

b) Explain Linder Theory of International Trade (4 marks)

c) Explain welfare effects of a tariff on imports by a small country (6 marks)

d) If the price of an imported HP computer is 1000 dollars under free trade, and the domestically assembled Mercer computer is made using 500 dollars worth of hardware and 200 dollars worth of software:

Calculate the effective rate of protection (ERP) for the Mercer computer if a 10% tariff is imposed on HP computers, 5% tariff on imported hardware and 8% tariff on imported software used in assembling Mercer computers in Kenya. (10 marks)

QUESTION TWO (20 MARKS)

a) (i) What is dumping? (1 mark)

(iii) Explain three type of dumping (6 marks)

b) Explain four main impulses which trigger import substitution strategy in developing countries (8 marks)

c) Demonstrate David Ricardo's theory of comparative advantage using the opportunity cost concept (5 marks)

QUESTION THREE (20 MARKS)

a) With help of a well labeled diagram, explain the gains realized from exchange and specialization with trade. (10 marks)

b) Explain five main assumptions of the Ricardian Model (10 marks)

QUESTION FOUR (20 MARKS)

a) Briefly explain two non tariff barriers (4 marks)

b) State Paul Samuelson's factor equalization theory (3 marks)

c) Outline five major competing explanations for the Leontief paradox (13 marks)

QUESTION FIVE (20 MARKS)

a) Outline four major competing explanations for the Leontief paradox (8 marks)

b) Use factor equalization theory to show that in theory with the normal working of the East African Community, wages and interest rates in the five member countries should be the same. (12 marks)