



# MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGEMENT

AGB 305: INTERNATIONAL AGRICULTURAL TRADE

DATE: 22/7/2019

TIME: 8.30-10.30 AM

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## INSTRUCTIONS;

Answer question ONE and any other TWO questions

### QUESTION ONE (30 MARKS)

- a) Distinguish the following terms as used in international trade
- i. Closed economy and open economy (2 marks)
  - ii. Import tariffs and export subsidies (2 marks)
  - iii. Outsourcing and off-shoring (2 marks)
  - iv. Absolute advantage and comparative advantage (4 marks)
- b) Discuss the mercantilist theory of international trade (4 marks)
- c) Describe three forms of dumping goods (6 marks)
- d) Discuss five non-tariff barriers to trade (10 marks)

### QUESTION TWO (20 MARKS)

- a) Assume that the production possibilities of Kenya and Brazil for two goods, rice and sugar are as shown below.

	Possibility 1		Possibility 2	
	Kenya	Brazil	Kenya	Brazil
Rice (bags/man-hour)	8	2	4	2
Sugar (bags/man-hour)	8	4	6	6

Under the two possibilities:

- i. Which country has an absolute advantage for each product and in which direction should trade occur? (4 marks)
- ii. Which country has a comparative advantage for each product and in which direction should trade occur? (4 marks)
- b) Kenya should allow importation of sugar. Discuss the case for or against this policy (12 marks)

**QUESTION THREE (20 MARKS)**

Using an appropriate graph, show the effects of:

- a) A closed economy on welfare (2 marks)
- b) Free international trade on welfare (5 marks)
- c) International trade with a tariff on welfare (5 marks)
- d) Discuss four disadvantages of economic integration (4 marks)
- e) Explain four functions of the World Trade Organization (4 marks)

**QUESTION FOUR (20 MARKS)**

- a) To spur economic growth and reduce unemployment, the government should encourage investments by multinational enterprises. Argue for or against this case. (10 marks)
- b) Using an appropriate graph, discuss the Heckscher-Ohlin (H-O) theory of international trade. (10 marks)

**QUESTION FIVE (20 MARKS)**

- a) Using appropriate examples, discuss the stages of economic integration (12 marks)
- b) Discuss four principles of the World Trade Organization system (8 marks)