MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 307: INTERNATIONAL ECONOMICS 1

DATE: 10/12/2019 **TIME: 11.00-1.00 PM**

INSTRUCTIONS:

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

(ii) ***Show your working clearly***

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Clearly distinguish between International Trade and International Finance (4 marks)

b) 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 (5 marks)

c) Using well labeled diagrams for country A and country B, explain how specialization and trade along lines of comparative advantage can increase the total world output of the two goods (X, Y) available for consumption. Country A has comparative advantage in production of good X and country B has comparative advantage in production of good Y. (6 marks)

d) With well labeled diagrams, explain the difference between Ricardian model and Neoclassical model (10 marks)

e) Clearly explain the contribution of Absolute Advantage theory to Mercantilist doctrine (5 marks)

QUESTION TWO (20 MARKS)

a) Using a well labeled diagram explain welfare effects of a tariff on imports by a small country (8 marks)

b) Clearly Explain the Heckscher – Ohlin Theory of International Trade using a well labeled diagram (8 marks)

c) Explain the term "dumping" and state three main types of dumping (4 marks)

QUESTION THREE (20 MARKS)

a) i Define the concept "Offer Curve" (2 marks)

ii A country's terms of trade and imports is as shown in the table below:

Terms of Trade	Demand for Imports	Supply of Exports
1X: 1Y or $P_X/P_Y = 1$	10 Units	-
1X: 2Y or $P_X/P_Y = 2$	44 Units	-
1X: 3Y or $P_X/P_Y = 3$	81 Units	-
1X: 4Y or $P_X/P_Y = 4$	120 Units	-

A. Calculate the country's respective exports (2 marks)

B. Show the country's Offer Curve in a well labeled diagram (6 marks)

b) i Explain the relationship between factor industry reversal and H-O theory (4 marks)

ii Explain why factor prices between trading countries are not equalized in the real world though equalized in countries with the same level of development (6 marks)

QUESTION FOUR (20 MARKS)

a) In relation to Stolper-Samuelson Theorem, explain the effect of trade on demand for labor and capital using well labeled diagrams (8 marks)

b) Explain the contribution of Imitation Lag Hypothesis on H-O model by Michael V. Posner in 1961 (8 marks)

c) State four advantages of International Trade (4 marks)

QUESTION FIVE (20 MARKS)

a) With aid of a well labeled diagram explain the consumption and production gains of trade (8 marks)

b) With aid of a well labeled diagram explain the effect of a subsidy on an infant industry (8 marks)

c) Explain the importance of studying International Economics (4 marks)