



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

FOURTH YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGEMENT

AGB 305/ KBT 420: INTERNATIONAL TRADE

DATE: 21/01/2021

TIME: 8.30-10.30 AM

INSTRUCTIONS:

Instructions: Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS)

- a) Define the following international trade terms;
- i. Import quota (1 mark)
 - ii. Infant industries (1 mark)
 - iii. Devaluation (1 mark)
 - iv. Terms of trade (1 mark)
 - v. International trade (1 mark)
- b) Describe the aims behind the formation of regional trade agreements (5 marks)
- c) Explain five reasons why government impose trade barriers (5 marks)
- d) Outline five roles of regional trade agreements (5 marks)
- e) Explain five effects of international capital flows (10 marks)

QUESTION TWO (20 MARKS)

- a) Country A has the following monetary and economic transactions made in the year 2018 with the rest of the world. Compute its Balance of Payment (15 marks)

| Particulars | Amount |
|-----------------------------|---------------|
| Current account | |
| Exports of goods | \$350,000 |
| Imports of goods | -\$400,000 |
| Exports of services | \$175,000 |
| Imports of services | -\$195,000 |
| Capital account | |
| Net capital account balance | \$45,000 |
| Financial account | |
| Net direct investment | \$75,000 |
| Net portfolio investment | -\$55,000 |
| Assets funding | \$25,000 |
| Errors and omissions | \$15,000 |

- b) What does the value of country A's Balance of Payment depict (5 marks)

QUESTION THREE (20 MARKS)

- a) What is a subsidy (2 marks)
- b) Discuss the four types of subsidies (8 marks)
- c) With the aid of a graph, outline the incidence of a subsidy in an economy (10 marks)

QUESTION FOUR (20 MARKS)

Suppose there are two countries X and Y, producing two commodities wheat and barley with labor as the only factor of production. Suppose also that country X has absolute advantage in production of wheat and barley where as country B has no absolute advantage in production of any of the products. Using the theory of comparative advantage with the aid of a table with hypothetical figures depicting the above situation, explain how trade can be beneficial for the two countries

QUESTION FIVE (20 MARKS)

- a) Highlight five disadvantages which may accrue to a country engaging in international trade (5 marks)
- b) Despite the flaws associated with trade liberalization, free trade has some benefits to the participating countries. Outline five advantages of free trade between nations (5 marks)
- c) Describe five dangers associated with capital flows (10 marks)