



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE AGRIBUSINESS MANAGEMENT

AGB305: INTERNATIONAL AGRICULTURAL TRADE

DATE:

TIME:

Instructions: Answer **Question1** and **ANY TWO** other questions.

QUESTION 1 (30 MARKS)

- a) Differentiate between the following terms used in international trade
- i. Closed economy and open economy (2 marks)
 - ii. Absolute advantage and comparative advantage (2 marks)
 - iii. Outsourcing and off-shoring (2 marks)
 - iv. Bound tariff and ad-valorem tariff (2 marks)
- b) Describe the Leontief paradox (4 marks)
- c) Describe three forms of dumping of goods (6 marks)
- d) Explain how trade between nations occurs using the following models:
- i) the gravity model (3 marks)
 - ii) the technological gap model (3 marks)
- e) Describe the process of economic integration, giving examples in each stage (6 marks)

QUESTION TWO (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 produce shoes using imported leather. Assume the world prices of shoes and leather are \$15 and \$7 respectively. The table below shows tariff rates in both countries. Show which country's producers are more protected. (6 marks)

Country	Duty on leather (%)	Import tariff on shoes (%)
1	25	40
2	35	5

QUESTION THREE (20 MARKS)

- a) Mercantilism is an outdated philosophy with no application in modern international trade policy or practice. Critically analyze this statement giving relevant examples (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)	40	10	30	20	20	40
Sugar (kg/hour)	10	40	40	10	15	30

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 FOUR (20 MARKS)

- a) To reduce unemployment in Kenya, the country should adopt a policy that encourages massive investments by large multinational corporations locally. Explain five potential demerits of such a policy (10 marks)
- b) The table below shows trade statistics for nation X between 2012 and 2016.

Year	2012	2013	2014	2015	2016
Export price index	238	211	218	210	211
Current account balance (Billions)	-271	-285	-334	-341	-422
Import price index	280	251	269	266	288

- 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 FIVE (20 MARKS)

- a) Explain the key finding of each component of the Heckscher-Ohlin model of trade (8 marks)
- b) Import of agricultural commodities hurts the economy of the importing nation and should be discouraged. Using an appropriate diagram, explain why you would agree or disagree with this statement (12 marks)