Moderated 24/01/2020

EAE 307: INTERNATIONAL ECONOMICS I EXAM
2ND SEMESTER 2019/2020 (JAN-APRIL).

Kenyatta University

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Registration No........................

Question No............................

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Moderated

Externally Moderated 03/02/2020

INSTRUCTIONS:

1 Question ONE (1) is compulsory (30 marks)

2 Answer any other TWO (2) questions (20 marks each).

QUESTION ONE

a i) State Adam Smith's theory of absolute advantage (2 marks)

ii) State David Ricardo's theory of comparative advantage (2 marks)

iii) Define the concept of opportunity cost as used in international trade theory. (2 marks)

iv) Give five (5) positive and three (3) negative contributions of international trade to Kenya's economy. (4 marks)

> Adjust marks too few

b i) List any five (5) of the Ricardian model assumptions (5 marks)

ii) Give four (4) properties of community indiffence curves (4 marks)

iii) Use an algebraic expression to show that good X in country A is labour-intensive and good Y in country B is capital-intensive (1 mark)

c i) Use the concept of opportunity cost (OC) to demonstrate that Uganda and Kenya can gainfully exploit their respective comparative advantage in their resource endowment to benefit from trade (4 marks)

ii) Give two (2) main reasons that explain inter-trade between countries with the same level of economic development (2 marks)

iii) Give two (2) main characteristics that distinguish the Ricardian and the neo-classical models of international trade (2 marks)

iv) Define the following terms

- Specific tariff (½ mark); - Regressive tariff (½ mark)
- Ad valorem tariff (½ mark); - FOB prices (½ mark)

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QUESTION TWO

a. Briefly explain what the Leontief paradox is all about (5 marks)

b. Outline five (5) major competing explanations for the Leontief paradox — Set (c) and reallocate marks (15 marks)

QUESTION THREE

a. State Paul Samuelson's factor price equalisation theory (3 marks)

b. Use the factor price equalisation theory to show that in theory, with the resurrection of the East African Community (EAC), wages and interest rates in the five (5) member states should be the same (11 marks)

c. Explain why in practice factor prices in the EAC will not be equalised or the same in many years to come (6 marks)

QUESTION ~~THREE~~ FOUR

a. i) What is a tariff? (2 marks)

ii) Enumerate four (4) main reasons why countries impose tariffs (4 marks)

b. Use an appropriate ~~diagram~~ diagram to show the tariff revenue effects following the imposition of a tariff on an imported good by a small country (Kenya). (14 marks)

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QUESTION FIVE

a i) Give the price-based definition of dumping (2 marks)
ii) ~~Name and~~ explain the three types of dumping (6 marks)

b Explain the extent ~~to~~ which the following ~~different pattern~~ theories improve on Heckscher-Ohlin's unrealistic assumptions and their contribution to explaining different patterns of international trade:
i) Taste-bias that dominates production-bias (6 marks)
ii) Intra-industry and product differentiation arguments (6 marks)