EAE 807: INTERNATIONAL TRADE EXAM
2019/2020 2ND SEMESTER (JAN-APRIL)

Kenyatta University

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

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

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Moderated
24/01/2020.

INSTRUCTIONS:

Answer ALL questions (25 marks each)

Externally Moderated
04/02/2020

QUESTION ONE

a The liberalisation policies implemented by the government of Kenya in 1990s, which were imposed by the IMF and the World Bank under the Structural adjustment programmes (SAPs), led to the improvement in the country's GDP growth rates until the global financial crisis of 2008 - 2010, when most governments re-introduced interventionist policies.

i) Looking at the policy reversals of the developed economies of USA (under President Donald Trump) and Britain (with Brexit), what are the implications on trade policy adopted on the basis of the Ricardian and neo-classical theories of trade? (15 marks)

ii) What should be Kenya's response to the free trade doctrine when its chief proponents until recently are now developing cold feet towards the theory? (10 marks)

QUESTION TWO

a i) The H-O model explains well only some patterns of trade. Which ones and why? (6 marks)

ii) Pick one H-O model assumption which can be dropped in order to provide an explanation for a particular pattern of ~~trade~~ trade between developed economies, which the H-O model fails to do. (6 marks)

iii) Explain clearly why the H-O model does not explain Kenya's trade with the other four member countries of the East African Community (6 marks)

HTO Marks too high for the question

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b Briefly outline the Leontief test of the H-O model and explain how the results of this test led to the development of alternative theories of trade (7 marks)

QUESTION THREE

a Use Paul Krugman's theory of economies of scale to show that the doubling of labour outputs will not necessarily require the doubling of labour input under the Ricardian assumption of labour being the only input in production. (9 marks)

b i) State Linder's theory of trade. (2 marks)

ii) Use Linder's theory of trade to demonstrate that Kenya, a low-income country, can benefit from trade with Turkey, a medium-income country and Italy, a high-income country. (9 marks)

iii) Demonstrate that Linder's theory contradicts what the Ricardian and H-O models postulate. (5 marks)

QUESTION FOUR

a Kenya's tariffs on imported fuel, vehicles, and electronics from outside COMESA are 2%, 16% and 25%, respectively. Suppose Kenya imported fuel worth Ksh 50 billion, vehicles worth Ksh 20 billion and electronics worth Ksh 10 billion:

i) What total revenue would be collected using unweighted average tariff rate (5 marks)

ii) What total revenue would be collected using weighted average tariff rate (WATR) (5 marks)

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b If the world price of a Bosch fridge from Germany is Ksh 140,000 under free trade, and an equivalent domestically assembled Samsung fridge uses Ksh 50,000 worth of body parts, and Ksh 20,000 worth of the compressor and electric/electronic parts:

i) What effective rate of protection (ERP) will be provided to the locally assembled Samsung fridge by 10% tariff on imported Bosch fridges? (5 marks)

ii) What effective rate of protection (ERP) will be ~~protected~~ provided to locally assembled Samsung fridges by 10% tariff on imported Bosch fridge, and 5% tariff on imported Samsung parts used in assembling Samsung frides? (5 marks)

iii) What would the difference in your answer in b(i) and b(ii) have on Kenya's policy of protection and Kenya's policy of export promotion. 5 marks.