



AFRICAN ECONOMIC RESEARCH CONSORTIUM

Collaborative PhD Programme in Economics for Sub-Saharan Africa

COMPREHENSIVE EXAMINATIONS IN CORE AND ELECTIVE FIELDS

JANUARY 28 – FEBRUARY 17, 2020

INTERNATIONAL ECONOMICS

Time: 08:00 – 11:00 GMT

Date: Wednesday, February 12, 2020

INSTRUCTIONS:

Answer a total of FOUR questions: ONE question from Section A, ONE question from Section B, and TWO questions from Section C; one of which **MUST be Question 5 or 6 and the other Question 7 or 8.**

The sections are weighted as indicated on the paper.

SECTION A: (15%)

Answer only ONE Question from this Section

Question 1

- (a) Briefly illustrate the four key relationships of the Heckscher – Ohlin model. **[10 Marks]**
- (b) What is currency risk and how does it affect importers and exporters? **[5 Marks]**

Question 2

- (a) The following table gives the unit labour requirement for the production of 2 goods (Good X and Good Y) in two countries namely Country 1 and Country 2.

| | Country 1 | Country 2 |
|-----------------|-----------|-----------|
| a _{LX} | 2 | 3 |
| a _{LY} | 3 | 3 |

- (i) Determine the pattern of trade based on the concept of absolute advantage. **[2 Marks]**
- (ii) Determine the pattern of trade based on the concept of comparative advantage. **[3 Marks]**
- (b) Define a balance of payments statement and explain all its components. **[10 Marks]**



SECTION B: (25%)

Answer only ONE Question from this Section

Question 3

When asked by the Carnegie Commission to write a report on post war Preferential Trading Agreements (PTA), Viner (1950) pointed out that they are not free trade. He used the concepts of trade creation and trade diversion to illustrate his claim. Using appropriate diagrams, clearly outline the Viner's model of PTA. [25 Marks]

Question 4

Using illustrative diagrams show that both monetary and fiscal policies are effective under floating exchange rates in an economy with imperfect capital mobility. [25 Marks]

SECTION C: (60%)

Answer TWO Questions from this Section;

One of which MUST be Question 5 or 6 and the other Question 7 or 8

Answer Question 5 or Question 6

Question 5

In a 2 countries- n goods Dornbusch, Fisher and Samuelson (DFS) Ricardian model, assuming that one country is the home country and the other is the foreign country.

- (a) Using the "chain" of decreasing relative labour costs, derive and explain the Production Allocation Locus and the Trade Balance Locus. [20 Marks]
- (b) Illustrate the Home country Autarkic and Trade Equilibrium. [10 Marks]

Question 6

- (a) Is trade liberalization the only ingredient for high economic growth? Discuss with reference to African countries. [20 Marks]
- (b) Briefly illustrate the factors that explain the continuing deadlock in the WTO Doha round. [10 Marks]



And

Answer Question 7 or Question 8

Question 7

- (a) Stating appropriate assumptions show that the real exchange rate follows a random walk. **[7 Marks]**
- (b) What is the implication of the result in (a) above? **[3 Marks]**
- (c) Demonstrate using the flexi-price approach to exchange rate determination that nominal exchange rate can be determined by economic fundamentals and speculative bubble term. **[7 Marks]**
- (d)
- (i) What are the key assumptions of Dornbusch's overshooting model? **[3 Marks]**
- (ii) Illustrate and explain how an unexpected, permanent monetary expansion leads to the exchange rate overshooting. **[10 Marks]**

Question 8

- (a) Explain the seven building blocks of the new international financial architecture which have been developed to strengthen the operation of the global financial system. **[21 Marks]**
- (b) Discuss the relevance of the new international financial architecture to Africa. **[9 Marks]**