

AFRICAN ECONOMIC RESEARCH CONSORTIUM

**Collaborative MA Programme in Economics for Anglophone Africa
(Except Nigeria)**

JOINT FACILITY FOR ELECTIVES JUNE – OCTOBER 2006

INTERNATIONAL ECONOMICS I

First Semester: Final Examination

Duration: 3 Hours

Date: Friday, August 11, 2006

INSTRUCTIONS:

Answer **ANY THREE** questions. All questions carry equal marks (20 marks each).
Where relevant, use diagrams and real life examples to discuss the question.

Question 1

- (a) Discuss the Heckscher Ohlin Theory of international trade. Make sure to state all assumptions, and give real life examples [12 marks]
- (b) Discuss the Stolper-Samuelson theorem of international trade. How is this theorem used to justify protection of labour intensive industries in capital abundant industrialized countries? [8 marks]

Question 2

- (a) Use a general equilibrium analysis to demonstrate the effect of a tariff on the producer, the consumer, and the economy. [10 marks]
- (b) If the government of Kenya is considering two alternative trade policy instruments to assist domestic producers, one is a producer subsidy and the other is a tariff on importable cotton, which instrument would lead to less welfare loss for the consumer? Demonstrate. [10 marks]

Question 3

- (a) Despite the global negotiations for countries to liberalize trade through reduction of tariffs, we still observe a lot of proliferation of barriers to trade. Use quotas to discuss the impact of the Non Tariff Barriers (NTBs) on welfare of an importing country. Why and how could quotas have a greater adverse effect than tariffs on the welfare of the importing country? **[12 marks]**
- (b) Discuss the role played by the GATT/WTO in tariff negotiations, and the impact these have had on the trade of developing countries. **[8 marks]**

Question 4

With the aid of diagrams and an example, use the concept of trade creation and trade diversion to discuss the effect of regional economic integration. Show that trade diversion could lead to improvement of welfare of a country.

[20 marks]

Question 5

- (a) The New Trade Theories are a departure from the standard H-O theory of International Trade. Discuss these theories and how they explain trade, with reference to the following:
- (i) Product Cycle Theory **[5 marks]**
 - (ii) Taste similarities or Gravity Models; **[5 marks]**
 - (iii) Intra-industry Trade. **[5 marks]**
- (b) Provide an analysis of empirical work done on any **ONE** of the above. **[5 marks]**

THE END