



**AFRICAN ECONOMIC RESEARCH CONSORTIUM**  
**Collaborative Masters Programme in Economics for Anglophone Africa**  
**(Except Nigeria)**

**JOINT FACILITY FOR ELECTIVES (JFE) 2016**

**JUNE – SEPTEMBER**

**INTERNATIONAL ECONOMICS I**

**First Semester: Final Examination**

**Duration: 3 Hours**

**Date: Wednesday, August 3, 2016**

**INSTRUCTIONS:**

1. This paper consists of six questions.
2. You are required to answer **ANY FIVE** questions. All questions carry equal marks.
3. Your answers should be based on rigorous analysis and should demonstrate a deep and intuitive understanding of the issues involved.

**Question 1**

- (i) With the aid of a diagram, explain the phenomenon of factor intensity reversal. **[6 marks]**
- (ii) Distinguish between consumption gains and production gains from trade. **[6 marks]**

**Question 2**

Assume that country A is L-abundant and that good x is L-intensive, while good y is K-intensive. Labour is freely mobile between the sectors (x and y) and capital is not. The equilibrium wage rate and the amount of labour employed in the production of x and y in this country are determined by the intersection of the value of the marginal product of labour curves in sectors x and y. Assume that the price of commodity x has increased due to international trade.

- (i) Explain the effect of the increase in the price of commodity x on employment of labour in both sectors (x and y). **[3 marks]**
- (ii) Explain the effects on the real wage rate measured in terms of commodities x and y. **[3 marks]**
- (iii) Explain the effects on the real returns to the specific capital in sectors x and y. **[3 marks]**
- (iv) Explain the real returns to capital and labour in the long run when both factors are freely mobile across the sectors. **[3 marks]**



### Question 3

Outline the Falvey model of intra-industry trade. Your presentation should include a graphic interpretation of the model. Give a major weakness of this model. [12 marks]

### Question 4

*Immiserising* growth is a phenomenon that shows the possible negative effects of growth on social welfare in a large country. Give the concise statement of this phenomenon and explain it geometrically. Your answer should highlight the conditions that can give rise to *immiserising* growth. [12 marks]

### Question 5

Evaluate the effects of a tariff and a production subsidy to achieve a particular domestic production target. State your recommendation and the case for it. [12 marks]

### Question 6

Suppose a foreign firm is the only supplier of a product to the home market. The demand curve facing the foreign monopoly firm is downward sloping and flatter than the marginal revenue curve. The home government has decided to impose a tariff that must be paid per unit by the foreign monopoly before it is allowed to sell the good in the home country.

Explain the effects of the tariff on revenue, consumer surplus and welfare in the tariff-imposing country. Has the world as a whole gained from the tariff? (Assume constant marginal costs for the foreign firm). [12 marks]