



# AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)

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

JOINT FACILITY FOR ELECTIVES  
JUNE – OCTOBER, 2003

INTERNATIONAL ECONOMICS

First Session: Final Examination

11<sup>th</sup> August, 2003

TIME ALLOWED: 3 HOURS

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## INSTRUCTIONS:

1. Answer Question **One** and any other **Three** Questions.
  2. All questions are of equal weight.
  3. Marks will be awarded for clarity of work and expressions
  4. Explore formal models and diagrams where applicable
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1. a) The Heckscher- Ohlin Model is undoubtedly the dominant model of comparative advantage in modern economics. Briefly explain the theorem and demonstrate a proof of the theorem. **(8 points)**  
  
b) Critically evaluate the various attempts that have been made to resolve the Leontief Paradox. **(7 points)**
2. Modern trade, especially trade among developed economies is intra-industry trade. What are the salient features of Falvey's Neo-Heckscher Ohlin model and Brander Krugman's model of Intra-industry trade? **(15 points)**



3. Compare the following:
  - a) SAPs and SALs. **(3 points)**
  - b) Effective Rate of Protection and Domestic Resource Cost **(3 points)**
  - c) Trade Creation and Trade Diversion **(3 points)**
  - d) The General Agreement on Tariffs (GATT) and the World Trade Organization (WTO). **(3 points)**
  - e) African Growth and Opportunity Act (AGOA) and the European Union 'Everything but arms' initiative. **(3 points)**
4.
  - a) Using appropriate diagrams, analyze the effects of a tariff on the terms of trade of the tariff imposing country. Who benefits and who loses in the tariff-levying country? **(7 points)**
  - b) The Kenyan Sugar Industry has been in turmoil in recent years. Assuming the government decides to protect the industry with a 50 per cent tariff on imported sugar, examine the likely implications of the tariff on the domestic economy. If the government imposes a quota instead, how will the effects of the quota differ from that of tariff? **(8 Points)**.
5. Having escaped the worst effects of the Asian Crises, should Africa pursue globalization? What are the avenues to globalization and how can African Countries derive the maximum benefits from integration into the global economy? **(15 points)**