



# AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES  
JUNE – OCTOBER, 2004

## INTERNATIONAL ECONOMICS

### First Session: Special Examination

Time: 09.00 AM – 12.00 Noon

Friday August 20, 2004

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#### INSTRUCTIONS:

- Answer any **Four** Questions.
  - All questions are of equal weight.
  - Marks will be awarded for clarity of work and expressions
  - 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 its salient features and demonstrate a proof of Rybczynski 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) The Pure Theory of Trade and International Monetary Economics **(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 EU '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 theoretical debate on regional integration agreements dates back to Cournot (1927). However, the theory of customs union owes its origin to Jacob Viner (1950) who espoused the impact of customs union on trade creation and diversion. With the aid of appropriate diagrams, present this theory and rationalize the case for Regional Integration in Africa.
5. a) Why has Foreign Direct Investment become very crucial in the world economy?

*Elizabeth Asiedu (2004) observed that :*

“Although sub Saharan Africa (SSA) has reformed its institutions, improved its infrastructure and liberalized its FDI regulatory framework, the degree of reform was mediocre compared to the reform implemented in other developing countries. As a consequence, relative to other regions, SSA has become less attractive for FDI. An important implication of these results is that in a competitive global economy, it is not enough to just improve one’s policy environment: improvements need to be made both in *absolute* and *relative* terms”.

(Development Policy Review, 22 (1), (2004).

Do you agree with the above quotation (justify your answer). How can Africa attract more Foreign Direct Investment?