



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES

JUNE – SEPTEMBER 2007

INTERNATIONAL ECONOMICS I

First Semester: Final Examination

Duration: 3 Hours

Date: Thursday, August 2, 2007

INSTRUCTIONS:

Answer **ANY THREE (3)** Questions. All Questions Carry Equal Marks.

Question 1

Suppose the manufacturing sector in Uganda has 2 tradable industries, textiles and car assembly (X and Y respectively). While labour is perfectly mobile between the two sectors, capital is immobile, at least in the short run. Use the specific factors model of international trade to demonstrate the effect that these factor mobility assumptions would have on the returns to labour and capital in autarky and when there is trade with other countries. Distinguish between the effect on labour if the workers' consumption preferences are more towards good X and when they are more towards good Y.

[20 marks]

Question 2

Using appropriate diagrams and examples, discuss the following:

[5 marks each]

- (a). The Leontief paradox;
- (b). The Rybscynski Theorem;
- (c). Intra-industry trade;
- (d). The Gravity model of international trade.



Question 3

- (a). Discuss the effect of an import tariff on the producers and consumers. Demonstrate how the imposition of a tariff affect imports valued in domestic versus international prices. In what way does an import tariff adversely affect the export sector? Demonstrate with a diagram. [12 marks]
- (b). With the aid of an example, discuss the effective rate of protection. Show how it is the effective rate of protection that is more relevant in the protection of industries such as the Textile/Clothing industries of the developed countries. [8 marks]

Question 4

Discuss the functions of GATT/WTO, and show how the WTO extends beyond GATT in its functions. How can developing countries benefit as members of the WTO, in their trade relations with the industrialized countries? [20 marks]

Question 5

With the aid of diagrams and an example, use the concepts of trade creation and trade diversion to discuss the effect of regional economic integration. What are the factors that tend to enhance trade creation? And those that tend to minimize trade diversion? To what extent are these applicable to regional integration in Africa? [20 marks]

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