



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES

JUNE – OCTOBER 2008

INTERNATIONAL ECONOMICS I

First Semester: Final Examination

Duration: 3 Hours

Date: Monday, August 11, 2008

INSTRUCTIONS:

1. This Examination Paper Consists of Two Sections: Section A and Section B
 2. Section A is Compulsory.
 3. Answer Any Two Questions from Section B
 4. Number of Questions Set: SIX
 5. Total Number of Questions to be Answered: THREE
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SECTION A (COMPULSORY)

Question 1: (40 marks)

- (a) Using empirical evidence, discuss the effect of trade liberalization on growth, openness and investment. (10 marks)
- (b) Is trade liberalization the only ingredient for high economic growth? Discuss with reference to African countries. (10 marks)
- (c) Based on comparative considerations, is it possible to relate winners and losers from formation of regional economic integration? Explain. (20 marks)



SECTION B (ANSWER ANY TWO QUESTIONS)

Question 2: (30 marks)

- (a) In a two-country, n goods (Dornbusch, Fisher and Samuelson, 1977) Ricardian model, assume one country is the home country and the other is the foreign country.

Using the “chain” of decreasing relative labour costs, derive and explain the Production Allocation Locus and the Trade Balance Locus (10 marks)

- (b) ‘From a theoretical perspective, the Heckscher-Ohlin theory is superior to the Ricardian approach, yet from an empirical perspective the Heckscher-Ohlin theory is inferior to the Ricardian framework.’ Discuss. (20 marks)

Question 3: (30 marks)

‘Depending on economic condition, the impact of a quota and tariff on a small country can differ. However there are circumstances when they are the same.’ Discuss. (30 marks)

Question 4: (30 marks)

Imagine a world in which there are two kinds of production: agriculture and manufacturing. Agricultural production is characterized by constant returns to scale while manufacturing sector is characterized by increasing returns to scale. Further assume that transport is costless in the agricultural sector while transportation costs for the manufactured goods exist in a Samuelson’s “iceberg” form.

Using equations and diagram show that only if countries are sufficiently similar in size; then both will produce manufacturing products. However, if countries are unequal in size, whichever is the larger country will produce all the increasing returns products. (30 marks)

Question 5: (30 marks)

- (a) Enumerate the main conclusions of Matsuyama (1992) learning by doing model. (7 marks)
- (b) According to Sachs and Warner (1995), what are the five characteristics of a closed economy? (5 marks)



- (c) Based on Sachs and Warner (1995), Wacziarg and Welch (2008) produce an openness dummy for the 1990s. Illustrate the main differences between their two data sets.
(10 marks)
- (d) Comment on the Rodriguez and Rodrik (2000) critique of Sachs and Warner (1995).
(8 marks)

Question 6: (30 marks)

Write notes on THREE of the following FIVE topics:

- (a) Anti Dumping and Countervailing Duties
- (b) Reciprocal Dumping Model of International Trade
- (c) Effective Rate of Protection
- (d) Log Rolling and Special Interest
- (e) World Trade Organisation (WTO)

(3 x 10 marks)

-----END OF EXAM PAPER-----