



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES
JUNE – OCTOBER 2009

INTERNATIONAL ECONOMICS I

First Semester: Final Examination

Duration: 3 Hours

Date: Monday, August 10, 2009

INSTRUCTIONS:

Answer ANY THREE questions. All questions carry equal marks (20 marks each).
Where relevant, use diagrams and real life examples to discuss the question.

Question 1

- (a) Discuss the Heckscher Ohlin Theory of international trade. Make sure to state all assumptions. Discuss how this theory has been found to explain or failed to explain international trade of developed and/or developing countries? [15 marks]
- (b) Discuss the Stolper-Samuelson theorem of international trade, and show how this theorem has been used to justify protection of labour intensive industries in capital abundant industrialized countries. [5 marks]

Question 2

The New Trade Theories are a departure from the standard H-O theory of International Trade. With reference to the following, discuss how these theories explain international trade. State how they depart from the standard H-O theory:

- (i) Product Cycle Theory [5 marks]
- (ii) Gravity Models [5 marks]
- (iii) Intra-industry Trade [5 marks]
- (iv) Taste similarities theories [5 marks]



Question 3

- (a) Use a general equilibrium analysis to demonstrate the effect of a tariff on the producer, the consumer, and the economy. Demonstrate and explain the welfare reducing impact of tariffs on an economy. [10 marks]
- (b) Non-tariff barriers, notably quotas, have been found to be more costly to an economy, even if they have the same effect on domestic price ratios as tariffs. Discuss the effect of quotas, and with the aid of an example, discuss the rent seeking behaviour when there are quotas versus tariffs. [10 marks]

Question 4

With the aid of diagrams and an example, use the concept of trade creation and trade diversion to discuss the effect of regional economic integration. Show that trade diversion could lead to improvement of welfare of a country. [20 marks]

Question 5

Discuss the general obligations and functions of the GATT/WTO in tariff negotiations. What impacts have the negotiations had on the trade of developing countries? [20 marks]

Question 6

- (a) Discuss the structure of trade of Sub-Saharan Africa. What have been the limitations of trade for development for this region? [10 marks]
- (b) Compare the trade structure of Sub-Saharan Africa with that of South East Asia. What lessons can Africa learn from South East Asia about its international trade for development? [10 marks]

THE END