



## **AFRICAN ECONOMIC RESEARCH CONSORTIUM**

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

### **JOINT FACILITY FOR ELECTIVES (JFE) 2010**

**JUNE – OCTOBER**

### **INTERNATIONAL ECONOMICS I**

**First Semester: Final Examination**

**Duration: 3 Hours**

**Date: Wednesday, August 11, 2010**

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#### **INSTRUCTIONS:**

1. This Examination is Divided into 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**

**(The Question in this Section is Compulsory)**

#### **Question 1: (40 Marks)**

- (a) Using African countries as a case study, assess the empirical evidence of trade openness on growth. **(15 Marks)**
- (b) Is trade liberalization the only ingredient for high economic growth? Discuss with reference to African countries. **(15 Marks)**
- (c) With reference to empirical evidence, illustrate why African policy makers are not convinced that opening to trade is the best way to achieve their development aspirations. **(10 Marks)**



## SECTION B

(Answer ANY TWO Questions in this Section)

### Question 2: (30 Marks)

- (a) In the 2 x 2 Ricardian model assume that Home country specialises in good X and foreign country in good Y. Diagrammatically represent the Ricardian world market for good X. (12 Marks)
- (b) In a 3 x 3 Ricardian world, the constant labour costs of producing a unit of good  $j$  in country  $i$  are as follows:

		<i>Country</i>		
		1	2	3
<i>Good</i>	X	1/4	1	1
	Y	1	1/3	1/2
	Z	1	1/2	1/3

Using the concept of Goods Triangle, illustrate the pattern of specialisation. Is this pattern of production an optimal assignment? (18 Marks)

### Question 3: (30 Marks)

- (a) Using appropriate equations and maths, prove the Stolper – Samuelson theorem. (15 Marks)
- (b) Using appropriate examples, discuss the Leontief paradox and the Leamer reformulation of the paradox. (15 Marks)

### Question 4: (30 Marks)

Clearly illustrate and explain Krugman's product differentiation model of international trade. (30 Marks)



### **Question 5: (30 Marks)**

- (a) Using the offer curve analysis, suppose a country imposes an optimum tariff and the other country retaliates. Can both countries gain? **(15 Marks)**
- (b) Clearly explain what you understand by the term effective rate of protection. Why might policy makers be interested in measuring the effective rate of protection? **(15 Marks)**

### **Question 6: (30 Marks)**

Consider each of the statements below. For each of the statement indicate whether you consider it to be true, false or uncertain. You should support your answer using maths, diagrams or reference to the literature. *Unsupported answer will receive no marks.*

- (a) 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. **(10 marks)**
- (b) A tariff is always preferred to an equivalent quota. **(10 Marks)**
- (c) Political decisions based on preferences of the median voter fail to directly register the intensity of preferences held by those voters. **(5 Marks)**
- (d) Rational ignorance and rational abstention on the part of voters will increase the influence of special interest groups on political outcome. **(5 Marks)**

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