

University of Fort Hare
Department of Economics

International trade theory and policy- ECO321/E

January Supplementary Exam

2019

Hours: 3 Hours

Marks: 100

This paper consists of 3 pages including the cover page

Internal Examiner

External Examiner

Ms N. Ndlovu

Prof I. Choga

Mr E. Mutambirwa

Instructions

Choose any four Questions

Make use of relevant contemporary examples where applicable. The graphical illustrations must be clearly shown.

Question 1 [25 marks]

In The following Classical-type table showing labor requirements per unit of output for each of the five commodities in Kenya and South Africa, assume that the wage rate in Kenya is Sh12 per day, the wage rate in South Africa is R24 per day, and the exchange rate is SH 1=R1.5.

	Milk	CDs	Bicycles	Vehicles	Jeans
Kenya	1 day	1.5 days	5 days	10 days	2 days
South Africa	2 days	1 days	3 days	4 days	3 days

Using the above information answer the following questions:

- Is trade between the two countries likely to occur and, if so, which goods will each country be exporting or importing? Explain your answer. [10]
- If trade arises, determine the upper and lower limits to Kenya's wage rate, other things being equal [9]

Suppose there is a change in the exchange rate from SH 1=R1.5 to SH 1=R2, will there still be a basis for trade between the two countries. Explain [6]

Question 2 [25 marks]

- Discuss the main possible solutions to the debt problem faced by developing countries. (9)
- With the aid of a well labelled diagram, discuss the general equilibrium effects of a tariff imposed on an import good by a small country. (14)

Question 3 [25 marks]

- With relevant examples, discuss any four basic types of integration. (14)
- With the aid of a well labelled diagram, briefly discuss the general equilibrium effects of quota imposed on an import good by a large country. (11)

Question 4 [25 marks]

- Explain the difference between the "gains from exchange" (consumption gain), the "gains from specialisation" (production gains), and the "total gains from trade."

(10)

b.) With reference to South Africa, explain how trade openness can potentially contribute to the more economic growth. (15)

Question 5 [25 marks]

How useful is the Hecksher-Ohlin theory of comparative advantage as a predictor of which goods a country is likely to export/import? Critically examine this question from both the theoretical and empirical perspectives. (25)

Question 6 [25 marks]

In August 1990, many countries decided to retaliate against Iraq for its invasion of Kuwait by refusing to trade with Iraq (except in food and humanitarian goods). With such an “embargo” in place, what conceptually would happen to Iraq’s terms of trade and volume of trade? Illustrate and explain your answer using offer curves. (25)

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