

UNIVERSITY OF FORT HARE
DEPARTMENT OF ECONOMICS

ALICE, AND EAST LONDON CAMPUSES

ECO 321/ ECO 321E

OCTOBER/NOVEMBER EXAMINATIONS 2024

Time: 3 Hours

MODULE: International Trade Theory and Policy

Marks: 100

This paper consists of 3 pages including the cover page

Internal Examiners

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Instructions

1. There are THREE sections.
2. Sections A and C are **COMPULSORY**.
3. Answer **ANY TWO** questions in section B.
4. Use clearly labelled diagrams where necessary.
5. Show any workings.

SECTION A: COMPULSORY**[25]****QUESTION 1- Case Study: Ghana and Congo**

Scenario: Ghana and Congo both produce two goods: wheat and cloth. The table below shows the output per worker per day in each country.

Country	Timber (ton)	Copper(gram)
Ghana	6	8
Congo	4	12

1. Which country has an absolute advantage in the production of timber and which country has an absolute advantage in the production of copper? Justify your answer using the data provided. [10 marks]
2. Calculate the opportunity cost of producing one ton of timber and one gram of copper in each country. [10 marks]
3. Based on the concept of comparative advantage, which country should specialize in the production of timber and which country should specialize in the production of copper? Justify your answer with the calculations from Question 2. (5 marks)

SECTION B: (ANSWER ANY TWO QUESTIONS FROM THIS SECTION)**[50]****QUESTION 1 [25]**

1. Differentiate between the imitation lag and demand lag. (5)
2. Discuss the benefits of international trade based on comparative advantage. [10]
3. Discuss the key assumptions of the Krugman model. (10)

QUESTION 2 [25]

1. Use the Linder theory to illustrate and explain the per capita level of a country in particular pattern tastes, where:
 - a) Russia has a higher per capita income, and it demands higher quality products.
 - b) Ukraine has a lower per capita and demands the lower quality products.
 - c) In your discussion, give a background of the theory and factor in its assumptions.

QUESTION 3 [25]

1. Explain three (3) arguments for trade protection. **(10)**
2. With reference to the three arguments for protection discussed in 3(1) above, critically discuss their relevance in the context of South Africa. **(15)**

SECTION C: COMPULSORY

[25]

1. Illustrate and explain Autarky equilibrium in a country. **[11]**
2. Explain the concept of absolute advantage. **[7]**
3. Explain the concept of comparative advantage **[7]**

END.
