

University of Fort Hare
Department of Economics

International Trade Theory and Policy - ECO321/E

November Main Exam

2019

Hours: 3 Hours

Marks: 100

This paper consists of 3 pages including the cover page

Internal Examiner

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Instructions

Choose ANY four questions

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

Question one [25 marks]

In The following Classical-type table showing labor requirements per unit of output for each of the five commodities in Botswana and South Africa, assume that the wage rate in Botswana is P12 per day, the wage rate in South Africa is R24 per day, and the exchange rate is P 1=R2.

	Good A	Good B	Good C	Good D	Good E
Botswana	2 days	10 days	5 days	1 days	4 days
South Africa	3 days	4 days	3 days	4 days	2 days

Using the above information answer the following questions:

- a) Is trade between the two countries likely to occur and, if so, which goods will each country be exporting or importing? Explain your answer. [9]
- b) If trade arises, determine the upper and lower limits to Botswana's wage rate, other things being equal [10]
- c) Suppose there is an improvement in productivity (lowering the labour requirements/product by 50 percent) in South Africa. Is there a basis for trade between these 2 countries, and why? [6]

Question two [25 marks]

1. Suppose 2 units of labour are required to manufacture one laptop while the production of 1 metre of cloth requires 8 units of labour in South Africa. However, in Zimbabwe, the manufacture of 1 laptop requires 4 units of labour and the production of 1 metre of cloth requires 12 units of labour.

Using the above information and the various Ricardian assumptions, answer the following:

- a. Is there a basis for trade between the 2 countries, and why? [4]
 - b. Suppose the wage rate in South Africa is R48/day and the wage rate in Zimbabwe is ZW\$30/day, and the exchange rate is ZW \$1/ R1. Is there still a basis for trade between these 2 countries, and why? [8]
 - c. Suppose there is an improvement in productivity (lowering the labour requirements/product by 50 percent) in Zimbabwe. Is there still a basis for trade between these 2 countries, and why? [3]
2. Explain with examples the relative factor abundance in terms of physical definition and price definition. [10]

Question three [25 marks]

- a) Explain the difference between the "gains from exchange" (consumption gain), the "gains from specialisation" (production gains), and the "total gains from trade." [15]
- b) Briefly discuss the Product Cycle theory of trade. [10]

Question four [25 marks]

- a) Discuss the general equilibrium effects of a tariff and a quota imposed on an import good by a large country. [25]

Question five [25 marks]

- a) With the aid of well labelled diagram, discuss the general equilibrium effects of a tariff imposed on an import good by a small country. [15]
- b) Briefly discuss the Linder theory of trade. [10]

Question six [25 marks]

- a) Assume that two countries have similar technology and demand but different factor endowments. Illustrate and explain the pattern of trade between the two countries based on the Heckscher-Ohlin theory. [12]
- b) "The benefit of joining a trading bloc will always outweigh the costs". Do you agree? Justify your view. [13]

END