



UNIVERSITY EXAMINATIONS

SPECIAL/SUPPLEMENTARY EXAMINATIONS

EXAMINATION FOR THE AWARDED OF DEGREE OF BACHELOR OF SCIENCE IN
ECONOMICS AND STATISTICS

ECON 441: INTERNATIONAL ECONOMICS 1

STREAMS: BSC

TIME: 2 HOURS

DAY/DATE: TUESDAY 11/8/2021

11.30 A.M. – 1. 30 P.M.

INSTRUCTIONS: ANSWER QUESTION ONE EXAM AND ANY OTHER QUESTION

- i) International trade has captured the attention and interest of modern economies. Discuss the relevance of internal trade (10 marks)
- ii) According to the Hecksher- Ohlin theory, two countries that have the same production technologies for the various products that they produce are unlikely to trade much with each other .Discuss this statement. (10 marks)
- iii) Suppose the economy is characterized as follows;
- $AE=C+I+G+X-M$
- $C=600+0.75(Y-T) - 30 (r)$
- $I=500-50 r$
- $G=300$
- $X-M=-25$
- $T=80$
- $R=5$
- Price level is fixed at 1($P=1$)
- Required
- i) Express the consumption function and the AE equation (4 marks)

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- ii) Suppose the investment demand function changes and is now $I=400-50(r)$. Find the new equilibrium output. (6 marks)

QUESTION TWO

- a) Discuss why a good cannot be both land- intensive and labour- intensive. (10 marks)
- b) Explain with relevant examples the impact of trade deficit on interest rates. (10 marks)

QUESTION THREE

- a) Countries with poor soil, low skilled -workers, no capital and low investment in education have no absolute advantages .Discuss this statement. (10 marks)
- b) Examine the Marshall –Lerner conditions for the success of devaluation. (10 marks)

QUESTION FOUR

- a) Write short notes on spot and forward exchange rate. (5 marks)
- b) Explain the functions of foreign exchange market. (5 marks)
- c) Discuss in details the factor endowment theory of international trade. (10 marks)
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