CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF SCIENCE (ECONOMICS)

ECON 441: INTERNATIONAL TRADE I

STREAMS: BSC (ECON)   **TIME: 2 HOURS**

DAY/DATE: TUESDAY 05/12/2017   **11.30 A.M. – 1.30 P.M.**

INSTRUCTIONS: QUESTION ONE IS COMPULSORY. ANSWER ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

(a)   (i)   Distinguish between international trade and international finance.   [4 marks]

(ii)   Give the reason why we study international trade theory and international trade policy. Why are they known as the micro economic aspects of international economics?   [6 marks]

(b)   Consider the table below

CASE A		CASE B		CASE C		CASE D	
4	1	4	1	4	1	4	2
1	2	3	2	2	2	2	1

Required:

(i)   Indicate in each case whether or not trade is possible and the basis of trade.

[4 marks]

(ii)   Suppose that in case B Kenya exchange 4w for 4c with Tanzania

(a) How much does both Kenya and Tanzania gain.   [2 marks]

(b) What is the range of mutually beneficial trade?   [2 marks]

(c) How much would each nation gain if they exchanged 4w for 6C instead

[2 marks]

(c)   Using the concepts of consumer and provider surplus explain the costs and benefitsof tariff.   [10 marks]

QUESTION TWO (20 MARKS)

(a)   On national 1's supply of export of x is given as Qsx=0 at Px/Py=$\frac{1}{4}$, QsX=40 at

PX/PY=½, Qsx=60 at Px /Py=1, Qsx=70 at Px/Py=1½,. On the other hand, Nation 2's

demand for nation 1's export of x is given as Qdx = 40 at Px/Py = 1½Qdx=60 at Px/Py=1

and Qdx = 120 at Px/Py=½

    (i)   Sketch both the demand and supply in a diagram.   [8 marks]

    (ii)   Determine the equilibrium relative commodity price of the exports of commodity

        X with trade.   [3 marks]

    (iii)   What would happen if px/py were 1 ½?   [3 marks]

QUESTION THREE (20 MARKS)

(a)   Explain the causes of export instability in LDC and suggest policies that can reduce this

instability.   [6marks]

(b)   Explain the Rybcznski theory diagrammatically in a nation where only labor is growing.

[8 marks]

(c)   Calculate the rate of effectively protection when it is 40% as is 0.5 it is 40%.[6 marks]

QUESTION FOUR (20 MARKS)

(a)   By use of diagrams, show production and demand of x and y in 2 nations in the absence

of trade and then with trade as outlined under Heckscher-Ohlin theory.   [15 marks]

(b)   Using a diagram explain the concept of optimal tariff.   [5 marks]

QUESTION FIVE (20 MARKS)

(a)   Explain using how mutually beneficial trade can take place between 2 national based on

identical production frontiers but different tastes.   [10 marks]

(b)   Using general equilibrium analysis, indicate the effect of an imports tariff imposed by a

small nation on the relative commodity price of the importable commodity for individuals

in the nation and for the nation as a whole.   [10 marks]