CHUKA　　　　　　　　　　　　　　　　　　　　　　　**UNIVERSITY**

SUPPLEMENTARY / SPECIAL EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF BACHELOR DEGREE IN COMPUTER SCIENCE

AGEC 434: AGRICULTURE AND INTERNATIONAL TRADE

STREAMS:　BSc. (AGEC & AGBM)

TIME:　2 HOURS

DAY/DATE:　TUESDAY　17/11/2020　　　　　　　　　**2..30 P.M – 4.30 P.M.**

INSTRUCTIONS:
- (i)　　Answer ALL questions in section A and any other TWO IN section B
- (ii)　　Do not write on the question paper

SECTION A

Question One

a) Is it believed that trade works to the disadvantage of domestic producers and should be limited to insure domestic producer's protection against foreign competition?

(5 marks)

b) Suppose that the supply curve of an industry in a developing country is S_0 as shown, but that by producing 10 units for 2 years, producers would be able to learn to become more efficient and their costs would drop, at the end of that two years, by \$5 per unit. Their supply curve would therefore become the one shown as S_1 thereafter. The world price is \$5. Use the numbered grid in the figure to answer the following questions.
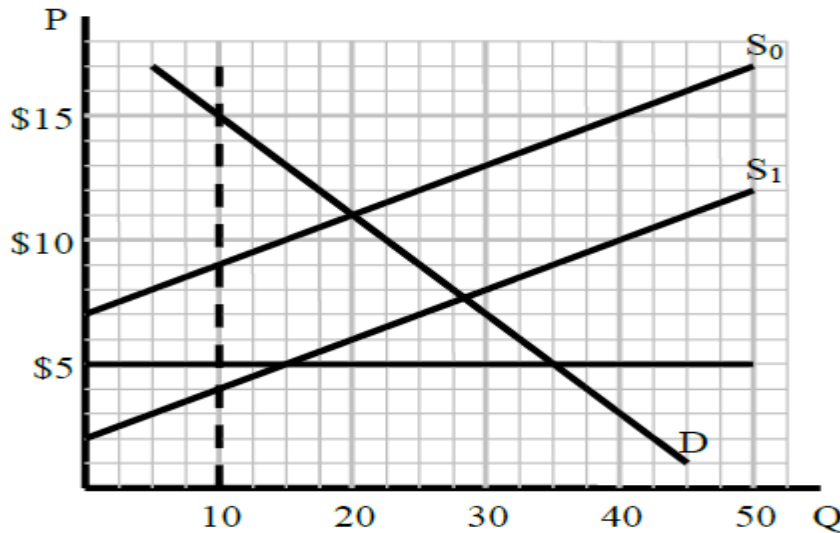
i.   If no policy is used at all, what will be the country's production and consumption of the good? **(3 marks)**

ii.   If the country uses a tariff to cause 10 units to be produced, how big would the tariff have to be (in specific terms) and what would be the dead weight loss from the tariff? **(4 marks)**

iii. If the country instead pays a subsidy to producers equal to the tariff you just found, what would be the dead weight loss? **(4 marks)**

iv.   If the country returns to free trade after 2 years of either policy, with the supply curve now shifted down to S1 as a result, what is the gain in producer surplus in years 3 and beyond? Assuming the future benefits are weighted the same as present benefits and costs, for how many years in each case (the tariff and the subsidy) would production at the lower cost have to continue to make the policy a net winner? **(4 marks)**

Question 2

a) Define dumping and identify three types of dumping **(4 marks)**

b) The table below presents production requirements for two commodities, maize and sugar, in a hypothetical world comprising two countries Gambia and Korea.

Unit cost of production in terms of labour		
	Gambia	Korea
Maize	4	6
Sugar	8	4

i)   Which country has an absolute cost advantage in production of maize? **(2 marks)**

ii)   Which country has absolute advantage in production of sugar? **(2 marks)**

iii) Tabulate the cost coefficients in terms of opportunity costs **(2 marks)**

iv)   What is the autarky price ratio between wheat and sugar in Gambia?   **(2 marks)**

v)   What is the autarky price ratio between wheat and sugar in Korea?   **(2 marks)**

vi)   If the two countries would engage in trade, what would each export?   **(2 marks)**

vii)   What would be the world total produce if each country specializes in what they have an absolute advantage in?   **(2 marks)**

viii)   State the sufficient condition for free trader in the hypothesized world. **(2 marks)**

SECTION B

Question Three

a) Discuss the key principles and the functions of world trade organization to all countries, which are members.   **(10 marks)**

b) Which can be arguments for Kenya to impose protectionism policy.   **(5 marks)**

Question Four

Discuss any illustrate the theory of comparative advantage in agricultural output and gains from trade with comparative advantage and the limitations of this theory.   **(15 marks)**

Question 5

a) Discuss the importance of Kenya being a member of the economic integrations like AGOA, ACP, GSP and COMESA in developing of agricultural.   **(8 marks)**

b) Identify the trade policy instruments used by Kenya to promote its agricultural sector internationally.   **(7 marks)**

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