



OFFICE OF THE DEPUTY PRINCIPAL
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2020 /2021 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF ECONOMICS

COURSE CODE: ECO 414

COURSE TITLE: INTERNATIONAL ECONOMICS 1

DATE: 15th MARCH, 2021

TIME: 9:00-12:00 pm

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

REGULAR – MAIN EXAM

ECO 414: INTERNATIONAL ECONOMICS 1

STREAM: BA ECONOMICS

DURATION: 3 Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions.*
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.*
- iii. Do not write on the question paper.*

Question One

- a. State Adam Smith's theory of absolute advantage. (5 marks)
- b. State David Ricardo's theory of comparative advantage (5 marks)
- c. Give five positive and five negative contributions of international trade to Kenya's economy (10 marks)
- d. Highlight and clearly explain five Mercantilist trade policies and practices that are still key cornerstones of Kenya's trade policies. (10 marks)

Question Two

- i. Briefly explain what the Leontief paradox is all about. (5 marks)
- ii. Outline five major competing explanations for the Leontief paradox (15 marks)

Question Three

- i. State Paul Samuelson's factor equalization theory (3 marks)
- ii. Explain why in practice factor prices in the EAC will not be the same for many years. (6 marks)
- iii. Briefly explain the Stolper-Samuelson Theorem on the relationship between output prices and factor prices (11 marks)

Question Four

- i. Define the concept of opportunity cost as used in international trade (4 marks)
- ii. Briefly define factor abundance as expounded by Heckscher Ohlin using:

- Relative factor quantities (3 marks)
- Relative factor prices (3 marks)

iii. Use an appropriate diagram to show the tariff revenue effect following the imposition of a tariff on an imported good by a small country (10 marks)

Question Five

a. i) What is a tariff? (2 marks)

ii) Give four (4) main reasons why countries impose tariffs (4 marks)

iii) Use examples to explain the difference between specific and ad valorem tariffs (4 marks)

b. Draw a well labeled sketch diagram showing the welfare effects of imposing a tariff on an imported good by a small country (10 marks)