KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF SCIENCE IN ECONOMICS AND MATHEMATICS

COURSE CODE: **ECON 412**

COURSE TITLE: **INTERNATIONAL ECONOMICS I**

STREAM: **Y4S1**

DAY: **WEDNESDAY**

TIME: **2.00 – 4.00 P.M.**

DATE: **6/8/2008**

INSTRUCTIONS:

1. Answer **QUESTION ONE** and any other **TWO** questions.

PLEASE TURN OVER

QUESTION 1

(a) Using appropriate illustrations, explain why countries trade and the gains from such trade. **(6mks)**

(b) Explain the gains from trade by the following two countries (A and B) producing two commodities (X and Y) **(8mks)**

Country	**Amount of labor used in producing a Unit of X**	**Amount of labour used in producing a Unit Y**
A	8	10
B	4	8

(c) Discuss the possibility of trade between the following two countries (Kenya and South Africa) producing two commodities (cement and radio sets) **(5mks)**

Country	**Cost of producing 1 bag of cement**	**Cost of producing a radio set**
Kenya	KES.200	KES.2000
South Africa	SAR.20	SAR.500

(d) Explain the assumptions behind the comparative advantage theory. **(11mks)**

QUESTION 2

(a) Using standard theory of international trade prove that even for two countries

(i) With different production possibility frontiers but identical tastes, gains from trade is still possible. **(6mks)**

(ii) With identical production possibility frontiers but different tastes, gains from trade is still possible. **(6mks)**

(b) Distinguish between gains from exchange and gains from specialization in international trade. **(8mks)**

QUESTION 3

(a) Using Edgeworth Box diagram, explain the change in equilibrium of two countries that are differently endowed when they decide to trade. **(8mks)**

(b) Explain clearly the concept of immiserizing growth. **(6mks)**

(c) According to Stolper-Samuelson theory, explain the expectations concerning wages and price of capital in Kenya and Japan if free trade was allowed in the long run. **(6mks)**

QUESTION 4

Using relevant diagrams, explain each of the following:

(a) Factor price equalization theorem **(5mks)**

(b) factor-intensity reversals **(5mks)**

(c) Heckscher-Ohlin theorem **(5mks)**

(d) Stolper-Samuelson theorem **(5mks)**

QUESTION 5

(a) Discuss five arguments against protectionist policies. **(10mks)**

(b) With aid of appropriate diagrams, explain the possible consumption effects of growth in Kenya's tea industry in relation to international trade. **(10mks)**