



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

**FOURTH YEAR FIRST SEMESTER EXAMINATION FOR
THE DEGREE OF BACHELOR OF ARTS IN ECONOMICS
WITH INFORMATION TECHNOLOGY**

MAIN CAMPUS

AEC 407: INTERNATIONAL ECONOMICS

Date: 23rd February, 2018

Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer Question ONE in Section A and any other THREE in Section B.

SECTION A

QUESTION ONE

- a) Differentiate between internal trade and international trade (2 marks).
- b) Critically explain six (6) reasons why countries enter into international trade (18 marks).
- c) Suppose the elasticity of demand for a computer buyer is -0.8 , elasticity of supply is 0.4 and the government imposes a tax of 100Kshs. per computer:

Required

- i) Calculate the burden on the computer buyer (2 marks).
- ii) Interpret your answer in 1c (i) and explain who bears a lower tax burden and why? (3 marks).

SECTION B

QUESTION TWO

With the help of a table and one day's labour, explain Adam Smith's Theory of equal differences in cost (15 marks).

QUESTION THREE

Describe the variable in the following formula and discuss Gross barter terms of trade.

$$T_G = \frac{Q_m}{Q_x} \quad (15 \text{ marks})$$

1:2

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30.60

QUESTION FOUR

- a) Distinguish between compound duty and sliding scale duty (4 marks).
- b) "Tariffs have a variety of effects that depend upon their power of reduce imports." Discuss the effects of tariffs in Kenya (11 marks).

QUESTION FIVE

- a) Explain the meaning of "Resident" of an economy (2 marks).
- b) Discuss the important components that constitute capital and financial account and their relationship (13 marks).

QUESTION SIX

Discuss the functions of International Monetary Fund to developing countries of Africa and Asia continents (15 marks).