



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Fax: 254-20-891084
E-mail: academics@cuea.edu

AUGUST – DECEMBER 2018 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 308: INTERNATIONAL TRADE

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) Explain how the Ricardian model, the most basic model of international trade, works and how it illustrates the principle of comparative advantage **(15marks)**
- b) Demonstrate gains from trade **(5marks)**
- Q2. Explain the following concepts as used in international trade
- i) Comparative advantage **(2marks)**
 - ii) Absolute advantage **(2marks)**
 - iii) Relative prices and supply **(3marks)**
 - iv) Production possibility frontier **(2marks)**
 - v) Internal and external economies of scale **(4marks)**
 - vi) Import tariffs and export subsidy **(2marks)**
 - vii) Current account and capital account **(4marks)**
 - viii) Exchange rate **(1mark)**
- Q3. Home has 1,200 units of labor available. It can produce two goods, apples and bananas. The unit labor requirement in apple production is 3, while in banana production is 2.
- a) Graph Home's production possibility frontier. **(10marks)**
- b) What is the opportunity cost of apples in terms of bananas? **(4marks)**

- c) in the absence of trade, what would the price of apples in terms of bananas be? Why? **(6marks)**
- Q4. a) Explain the Heckscher-Ohlin theory of international trade **(15marks)**
- b) Using the Standard Model of a Trading Economy, explain the concepts: Relative Prices and Demand **(5marks)**
- Q5. a) Discuss the three sources of external economies **(15marks)**
- b) Explain how international negotiations and agreements have promoted world trade. **(5marks)**

END