MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS 2024/2025

FOURTH YEAR, FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR

SCIENCE IN ECONOMICS

BEC 3401: INTERNATIONAL ECONOMICS I

DATE: JANUARY 2025   **TIME: 2 HOURS**

INSTRUCTIONS: *Answer Question ONE and any other TWO Questions.*

QUESTION ONE – (30 MARKS)

a) Write short notes on the following terms:

    i)   International trade policy   (3 Marks)

    ii)   International Finance   (3 Marks)

    iii)   Terms of trade   (3 Marks)

b) Given the following, calculate the rate of effective protection when t is 40 percent, ai is 0.5 and ti is 40 percent. (5 Marks)

c) By use of diagrams, illustrate the effects of trade creating and trade diverting custom unions on the nation's welfare. (10 Marks)

d) Explain why the Heckscher-Ohlin theory is a general equilibrium model. (6 Marks)

QUESTION TWO – (20 MARKS)

a) Using a diagram, show the effect of an import quota. (8 Marks)

b) Discuss why nations subsidize exports and comment on problems of these subsidies.

(4 Marks)

c) Using a diagram, explain the effects of export subsidy. (8 Marks)

QUESTION THREE - (20 MARKS)

    a) Using a diagram, explain the costs and benefits of a tariff. (10 Marks)

    b) Explain the Heckscher-Ohlin theory postulate and identify the basic determinant of comparative advantage as postulated by this model. (10 Marks)

QUESTION FOUR - (20 MARKS)

    a) Using a diagram, explain the Rybczynski theorem. (8 Marks)

    b) Explain neutral, labour-saving and capital-saving technical progress. (6 Marks)

    c) Discuss how international trade can be based on product differentiation. (6 Marks)

QUESTION FIVE – (20 MARKS)

    a) Using diagrams, explain effect of a tariff on consumer and producer surplus. (12 Marks)

    b) Explain why a nation's production possibility frontier is the same as its consumption frontier in the absence of trade. (8 Marks)