

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR IN ECONOMICS**

ECON 441: INTERNATIONAL ECONOMICS 1

STREAMS:

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 24/3/2021

2.30 PM – 4.30 PM

INSTRUCTIONS:

- Answer question ONE (Compulsory) and any other Two questions.
- Do not write on the paper.

QUESTION ONE

- a. Explain the following terms as used in international economics. [Marks]
- i. Trade as a zero-sum game [2 Marks]
 - ii. Sporadic and predatory dumping [4 Marks]
 - iii. Law of one price [1 Mark]
 - iv. Lontief's Paradox [2 Marks]
 - v. Purchasing power parity [1 Mark]
 - vi. Reciprocal demand [1 Mark]
 - vii. Mint parity [2 Marks]
- b. Using the concept of opportunity cost, show that Uganda and Kenya can gainfully exploit their respective comparative advantage in their resource endowment to benefit from trade. Use an example to illustrate. [7 Marks]

c. A decision to produce is simultaneously a decision to consume. Discuss this statement.

[4

Marks]

d. Discuss the problems associated with the purchasing power parity theory. [6 Marks]

QUESTION TWO

a. Disequilibrium in the balance of payments occurs either as a deficit or a surplus. Discuss the measures that can be used to correct it. [10 Marks]

b. Trade between developed and developing countries is characterized by the former exporting manufactured products while the latter exports primary products". Discuss this statement to explain trade as an engine of growth. [10 Marks]

QUESTION THREE

a. "Globalization is a euphemism for present day free-trade crusade of neo-classical economics". Discuss this statement in view of what you have learnt in international economics giving the pros and cons of globalization. [10 Marks]

b. Briefly explain what Heckscher-Ohlin theorem is all about and discuss its assumptions. [10

Marks]

QUESTION FOUR

a. Discuss the main beliefs and practices that constitute the Mercantilist trade theory and highlight clearly the mercantilist trade policies and practices that are still corner stones in Kenya's trade policies. [10 Marks]

b. Discuss the possible causes of a persistent current account deficit. [10 Marks]

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