

UNIVERSITY OF ESWATINI
INSTITUTE OF POST-GRADUATE STUDIES
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION 2018/19

TITLE OF PAPER : INTERNATIONAL ECONOMICS AND TRADE
COURSE CODE : ACF 608
TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS :

- 1. QUESTION ONE (1) IN SECTION A IS COMPULSORY AND IT CARRIES 40 MARKS**
- 2. ANSWER ANY OTHER TWO (2) QUESTIONS IN SECTION B. ALL QUESTIONS IN SECTION B CARRY 30 MARKS EACH.**
- 3. ONLY SCIENTIFIC NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.**
- 4. ROUND UP YOUR FINAL ANSWERS TO TWO (2) DECIMAL PLACES.**

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR

SECTION A**QUESTION 1 (COMPULSORY)****[40 Marks]**

- a) Differentiate between a **specific tariff** and an **ad-valorem tariff**. [6 Marks]
- b) Briefly discuss three (3) arguments that are put forward by governments for imposing tariffs. [6 Marks]
- c) The Balance of Payments (BoP) are separated into three (3) categories. Define each of these categories of the BoP accounts. [9 Marks]
- d) Explain how each of the following transactions generates two entries, a credit and a debit, in the Swaziland Balance of Payments accounts at a spot rate of $E15/\$1$. Also describe which categories of the BoP will be used to record them:
- i. A Swazi citizen acquires \$200 in foreign exchange in order to enable her to purchase some goods from the United States of America (USA). [4 Marks]
 - ii. The Swazi individual purchases Nike sneakers from the USA worth \$150. [5 Marks]
 - iii. Coca-Cola USA purchases soft drinks syrup from CONCO Swaziland worth $E2500$. [5 Marks]
- e) If the Lilangeni-Dollar exchange rate is $E15/\$1$ and the Lilangeni-Pound Sterling exchange rate is $E22/£1$, what would be the Dollar-Pound Sterling exchange rate? [5 Marks]

SECTION B**Answer any Two (2) Questions from this Section****QUESTION 2****[30 Marks]**

- a) In the Heckscher – Ohlin model, what is the link between factor abundance and factor intensity? (Explain using the relevant mathematical notation) [6 Marks]
- b) The Heckscher – Ohlin model postulates a principle of factor price equalisation between trading countries. With the aid of examples, explain this principle. [9 Marks]

- c) “When a large country imposes a tariff for a certain good it imports, it often affects the foreign price of the good as well”. Is this statement true or false? Justify your answer.

[15 Marks]

QUESTION 3

[30 Marks]

- a) Briefly discuss the stages of economic integration, stating examples for each stage of integration. [10 Marks]
- b) Formation of a customs union can either be trade creating or trade diverting. With the support of graphs, analyse the statement. [20 Marks]

QUESTION 4

[30 Marks]

- a) Money markets between countries can be linked through the exchange rate market. Graphically illustrate and explain the effect of an **increase** in the money supply of the home country on the exchange rate in the short run (price level fixed). [20 Marks]
- b) Assuming that Purchasing Power Parity (PPP) holds, derive the equation for exchange rate determination under the Monetary Approach. [10 Marks]