

UNIVERSITY OF SWAZIAND

DEPARTMENT OF ECONOMICS

FINAL EXAMINATION PAPER, MAY 2007

TITLE OF PAPER : INTERNATIONAL ECONOMICS

COURSE CODE : ECON 403

TIME ALLOWED : THREE HOURS

INSTRUCTIONS : 1. ANSWER FOUR QUESTIONS; TWO QUESTIONS FROM SECTION A AND TWO QUESTIONS FROM SECTION B

2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH

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

SECTION A

QUESTION 1

(25 marks)

- [a] What contribution did Adam Smith make to the theory of international trade? (9 marks)
- [b] Discuss **TWO** types of terms of trade. (10 marks)
- [c] What is the new trade theory? (6 marks)

QUESTION 2

(25 marks)

- [a] With the use of a box diagram discuss the allocation of resources between commodities in a given country. (10 marks)
- [b] What are the implications of increasing the quantity of labour in the given country? (Rybczynski's theorem) (15 marks)

QUESTION 3

(25 marks)

- [a] Identify the reasons why the government of a country may impose tariffs. (9 marks)
- [b] Discuss the costs and benefits of a tariff for the imposing country. (16 marks)

QUESTION 4

(25 marks)

- [a] Identify the different types of economic integration. (10 marks)
- [b] What are the static effects of a customs union? (15 marks)

SECTION B

QUESTION 5

(25 marks)

- [a] Discuss the differences between balance of trade and balance of payments. (10 marks)
- [b] What are the causes of disequilibrium in the balance of payments? (15marks)

QUESTION 6

(25 marks)

- [a] Describe the foreign exchange market. (7marks)
- [b] Examine the **advantages** and **disadvantages** of the flexible (floating) exchange rate system. (18marks)

QUESTION 7

(25 marks)

- (a) Discuss the various problems a country may experience as a result of devaluation. (15 marks)
- (b) What are the reasons that may necessitate a revaluation of a given country's currency? (10 marks)

QUESTION 8

(25 marks)

- (a) Trace the events that led to the establishment of the International Monetary Fund (IMF) as an international financial institution. (8marks)
- (b) Critically examine the performance of the IMF since its establishment. (17 marks)