UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

FINAL EXAMINATION NOVEMBER 2014

PAPER TITLE   :   INTERNATIONAL ECONOMICS

COURSE CODE   :   ECON 406

INSTRUCTIONS:

1. ANSWER FOUR QUESTIONS.

2. BE PRECISE AND TO THE POINT

3. TIME ALLOWED: THREE (3) HOURS

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

QUESTION 1   [25]

a) Consider the following information about Lisa and Mitch's productivity:

Task	Lisa	Mitch
Ironing clothes	4 hours	5 hours
Washing clothes	3 hours	6 hours

(i) Calculate Lisa's opportunity cost of ironing clothes and washing clothes   (5)

(ii) Calculate Mitch's opportunity cost of ironing and washing clothes   (5)

(iii) Who has the comparative advantage in ironing?   (3)

b) Suppose you are given the following price information

Year	Price of Petrol	Price of Bread
1990	E 0.89 per liter	E 0.35 per loaf
2010	E 2.39 per liter	E 1.49 per loaf

a) Calculate the percentage change in the price of petrol and price of bread   (5)

b) Calculate the percentage change in the relative price of petrol in terms of bread   (3)

c) Explain why do we only worry about relative price in economics?   (4)

QUESTION 2   [25]

Discuss the Heckscher-Ohlin (H-O) model/theorem of international trade under the following subheadings:

a)   Major features of the model/theorem;   (8)

b)   Brief description of the model/theorem   (4)

c)   Four assumptions of the Theorem   (8)

d)   Two key takeaways   (5)

QUESTION 3 [25]

In international trade, economists assume that supply of production factor grows over time. Factor growth affects international trade and welfare of the trading countries, increases / decreases the output of both the exportable and the importable. Answer the following:

a) Describe with examples the **Four Stages** of the output growth in both exportable and importable commodities. (10)

b)   Describe Three assumptions of the Factor Endowments Theorem. (9)

c)   Provide Three different meanings of factor intensity. (6)

QUESTION 4 [25]

a)   Differentiate between Factor Abundance and Factor Intensity graphically and explain. (10)

b)   Briefly explain why Swaziland must protect infant industries from foreign competition? (15)

QUESTION 5 [25]

a)   Briefly discuss main features of the new trade theories related to the H-0 mode. (15)

b)   Briefly explain why technology play critical role in international trade. (10)