



UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, NOVEMBER 2019

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO 403/ ECON 406

TITLE OF PAPER: INTERNATIONAL TRADE I

TIME ALLOWED: 2 HOURS

Instructions

1. This paper consists of Section (A) and (B).
2. Section A is compulsory.
3. Answer any two questions from Section B.

Special Requirements

Scientific calculator

*Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must **NOT** write anything else until the start of the examination period is announced.*

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

DO NOT turn examination paper over until instructed to do so.

SECTION A

Question One (Compulsory)

[40 Marks]

1. Use the following information to answer subsections (a)- (c):

Country A is labor abundant and capital scarce, while country B has the opposite pattern of factor endowments. Each produces food and clothing, the latter being more capital-intensive than the former.

(a) Before trade, what pattern of goods and factor price would you expect to prevail in each country? Why? [8]

(b) Assuming that tastes are similar in each country, what pattern of trade would you expect to develop? Why? Illustrate with two relevant graphs. [18]

(c) How would the internal prices of clothing and food change in each country? What do these changes imply about factor prices? [14]

SECTION B

Answer any Two Questions

(30 Marks Each)

Question Two

(30 Marks)

2. (a) What is the difference between the nominal and the effective tariff rate on imports? What is the significance of each? [10]

(b) Discuss any five (5) reasons that are used to justify protection. [20]

Question Three

(30 Marks)

3. (a) (i) England imports televisions from either Germany and France. Show the trade creation and diversion effects of the formation of a free trade area between England and Germany if costs are increasing and France is the lowest cost producer. [15]

(ii) If England and France form a free trade area (and France is the lowest cost producer), show the trade creation and diversion effects of this bloc. [10]

(b) Explain why the formation of a customs union may not increase welfare. [5]

Question Four

4. (a) Draw a figure showing the consumption , production, trade, revenue and redistribution effects of an import tariff when the nation is assumed to be too small to affect world prices. What is the protection cost of the tariff?

[20]

- (b) *“For a small country like the Philippines, a move to free trade would have huge advantages. It would let consumers and producers make their choices based on the real costs of goods, not artificial prices determined by government policy; it would allow escape from the confines of a narrow domestic market; it would open new horizons for entrepreneurship; and, most important, it would help to clean up domestic politics.”*

Separate and identify the arguments for free trade in this statement.

[10]