



# UNIVERSITY OF ESWATINI

FIRST SEMESTER SUPPLEMENTARY EXAMINATION PAPER,  
JANUARY 2020

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO 403/ ECON 406

TITLE OF PAPER: INTERNATIONAL TRADE I

TIME ALLOWED: 2 HOURS

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## 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

COMPULSORY [40 Marks]

### Question One: Multiple Choice Questions

(1 Mark Each= 10Marks)

1. Differences in wage rates between countries reflect
  - (a) the fact that one country may have more powerful labor unions which negotiate for higher wages.
  - (b) differences in labor endowments across countries.
  - (c) differences in transportation costs.
  - (d) differences in labor productivity
  
2. According to the theory of comparative advantage, if country A has a relative advantage in the production of wheat and country B has a relative advantage in the production of wine, each country should export its relative advantage good. This means that:-
  - (a) The price of wheat in country B and the price of wine in country A fall as a result of trade.
  - (b) the price of wheat in country A and the price of wine in country B fall as a result of trade.
  - (c) the price of wheat in country B and the price of wine in country A rise as a result of trade.
  - (d) the price of wheat falls both in country A and country B
  
3. International trade tends to:
  - (a) have no effect on the prices of production inputs.
  - (b) cause all prices of production inputs to increase.
  - (c) cause the price of the scarce factor of production to increase and the price of the abundant factor of production to decrease.
  - (d) cause the price of the scarce factor of production to decrease and the price of the abundant factor of production to increase

4. According to the Heckscher-Ohlin theory, countries will export
- (a) the good using its relatively abundant factor intensively.
  - (b) the good using its relatively scarce factor intensively.
  - (c) the good in which it has an absolute advantage.
  - (d) the good with the lowest transportation cost.
5. In order for factor price equalization to occur, the following conditions must hold:
- (a) factor intensity reversals and complete specialization.
  - (b) factor intensity reversals and incomplete specialization.
  - (c) no factor intensity reversals and complete specialization.
  - (d) no factor intensity reversals and incomplete specialization.
6. If labour is scarce in country B (and abundant in A), trade results in
- (a) an increase in the wage rate in country B and a decrease in the wage rate in country A.
  - (b) an increase in the wage rate in country A and country B.
  - (c) a decrease in the wage rate in country B and an increase in the wage rate in country A.
  - (d) a decrease in the wage rate in country A and country B
7. If production inputs are considered internally immobile in the short-run (assuming capital and labor are the only factors of production and this country is labor abundant),
- (a) both capital and labor employed in the labor-intensive industry lose while capital and labor employed in the capital-intensive industry gain from trade.
  - (b) both capital and labor employed in the labor-intensive industry gain while capital and labor employed in the capital-intensive industry lose from trade.
  - (c) capital employed in both sectors loses while labor employed in both sectors gains from trade.
  - (d) capital employed in both sectors wins while labor employed in both sectors loses from trade
8. One problem associated with the formation of a free trade area is
- (a) trade promotion
  - (b) trans-shipment

- (c) transfer pricing
  - (d) trade creation
9. A customs union incorporates
- (a) an FTA without a common external tariff
  - (b) an economic union without a common external tariff
  - (c) an FTA with a common external tariff
  - (d) an economic union with a common external tariff
10. Trade Diversion will tend to occur when member countries are:
- (a) very different in terms of their factor endowments and industrial structures
  - (b) very similar in terms of their factor endowments and industrial structures
  - (c) very different in terms of their political structure
  - (d) very similar in terms of their political structure

### Question Two

2. State whether the following statements are True, False or Uncertain and give reasons for your answer:-

(a) (i) Suppose Mexico needs 15 hours to produce a bolt of cloth and 10 hours to produce a television set. Brazil needs 5 hours to produce a bolt of cloth and 10 hours to produce a television set. Brazil has a comparative advantage in the production of televisions. [5]

(ii) A production subsidy is preferred to a tariff on welfare grounds since it generates a smaller deadweight loss and leaves consumption unchanged.

[5]

(iii) Protectionist policies are justified if home country firms face foreign competitors with significantly lower wage bills, since lower wages give the foreign firms an unfair advantage in the market. [5]

(iv) The creation of a regional trading bloc always increases economic efficiency. [5]

(b) State the Law of Comparative Advantage for the case of two nations and two commodities. [5]

(c) State the Heckscher-Ohlin Theory for the case of two nations and two commodities. [5]

## SECTION B

Answer any Two (2) Questions

(30 Marks Each)

### Question Three

(30 Marks)

3. (a) Home's demand curve for wheat is  $D = 100 - 20P$ .

Its supply curve is  $S = 20 + 20P$

Derive and graph Home's *import* demand schedule. What would the price of wheat be in the absence of trade? [12]

(b) Now add Foreign, which has a demand curve  $D^* = 80 - 20P$

and a supply curve  $S^* = 40 + 20P$

(i) Derive Foreign's export supply curve and find the price of wheat that would prevail in Foreign in the absence of trade. [5]

(ii) Now allow Foreign and Home to trade with each other, at zero transportation cost. Find and graph the equilibrium under free trade. What is the world price? What is the volume of trade? [13]

### Question Four

(30 Marks)

4. (a) Use the information given in the Table below to answer the following questions:-

Days of Labor Required to Produce	Country	
	United States	Canada
Golf Clubs (1 set)	5	1
Running Shoes (1 pair)	1	4

(i) Which country has an absolute advantage in running shoes? [3]

(ii) Calculate the opportunity cost of producing golf clubs in each country? [4]

(iii) Which country has a comparative advantage in golf club production? [3]

- (b) How do the mercantilist's views on trade differ from those of Adam Smith? [5]
- (c) How did Adam Smith explain his contention that all nations engaged in trade can benefit from trade? [5]
- (d) (i) What is meant by the "new protectionism" [5]
- (ii) To what problems does it give rise? [5]

**Question Five**

**(30 Marks)**

5. (a) In what way is the Heckscher-Ohlin theory superior to classical trade theory? [5]
- (b) With the aid of a diagram, explain the general equilibrium framework of the H-O Model [20]
- (c) State the Factor-Price Equalization Theory [5]