

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

***FOURTH* YEAR *SECOND* SEMESTER**

**SCHOOL OF: BUSINESS AND ECONOMICS**

**BACHELOR OF: BUSINESS MANAGEMENT**

**COURSE CODE: BBM 417**

**COURSE TITLE:** **INTERNATIONAL ECONOMICS I**

**DATE:4TH MAY 2016 TIME: 11-1 PM**

**INSTRUCTIONS TO CANDIDATES**

1. Answer Question **ONE** and any other **THREE** questions
2. Question ONE carries 25 marks
3. Involvement in exam cheating will lead to discontinuation

**QUESTION ONE**

1. a) Describe the doctrine of mercantilism and explain why it has been presented by the classical economists as a poor approach in promoting economic development and prosperity. (8mks).

b) Use the modern concept of opportunity cost to explain Ricardo’s theory of comparative advantage. (7mks)

c) What are the flows in Adam Smith and Ricardo’s theories when applied to reality in Kenya today? (5mks)

d) List resources (or endowment) in which Kenya has an absolute advantage over other countries, which are potential or actual trading partners. Give reasons for each resources cited (5mks)

**QUESTION 2**.

a)Define the following terms:

i) mercantilism(2mks)

ii) Specie – flow mechanism(2mks)

iii) Zero-sum game in trade(2mks)

iv) Autarky(2mks)

v) Commodity indifference curve (2mks)

b) In what way is dumping a close cousin of subsidies (5mks)

**QUESTION 3**.

a) Globalization in trade has implications on policy making powers of a country, sovereignty of countries, consumption patterns/tastes etc all of which have negative and positive effects on society. Discuss the pros and cons of globalization as advanced by the world trade organization. (8mks).

b) i) What is a tariff (2mks)

ii) Give four reasons why countries impose tariffs (5mks).

**QUESTION 4**.

a) Which assumptions does Heckscher and Ohlin adopt in addition to the six Ricardian model assumptions to develop their H-O model. (8mks)

b) Use algebraic terms and graphs examples to show that country A is capital abundant relative to country B. (4mks)

c) What is the Leontief Paradox? Explain your answer in detail (3mks)

**QUESTION 5**

a) Are the arguments advanced by precursor proponents of the infant industry argument still relevant to developing countries today. (5mks)

b) Define effective rate of protection (ERP) (2mks).

c) What are the advantages of:

i) Specific tariff (4mks)

ii) Ad Valorem tariff (4mks)