



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ARTS IN BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

CITY CAMPUS – DAY

AEC 407: INTERNATIONAL ECONOMICS

Date: 8th December, 2015

Time: 9.00 - 11.00am

INSTRUCTIONS:

- Answer Question ONE in Section A Compulsory and any other TWO Questions in Section B.
- Question A carries 30 marks and Section B 20 marks each



SECTION A

- Q1.(a) Explain the meaning of International Economies (2 marks)
- (b) Distinguish domestic trade from external trade (4 marks)
- (c) Critically explain the various forms of economic integration in East and Central Africa (10 marks)
- (d) "David Ricardo stated in his theory that other factors being equal a Country tends to specialize in and exports those commodities in the production of which it has maximum comparative cost advantage"
By the use of cost ratios of producing wine and cloth explain comparative cost difference in international trade (13 marks)

SECTION B

- Q2(a) Suppose elasticity of computer is 0.5, elasticity of computer demand is -0.7 and the government imposes a tax of Kshs 100 per computer:

Required

- (i) Computer tax on a computer buyer (3 marks)
- (ii) Interpret your answer in question 2(i) and explain why the computer buyer bears a lower tax burden (4 marks)
- (b) Discuss the determinants of the gains from international trade
- Q3 (a) Differentiate between sliding scale duty and compound duty (4 marks)
- (b) By the use of partial equilibrium analysis explain eight (8) effects of Tariffs (16 marks)
- Q 4(a) Explain the meaning of terms of trade (2 marks)
- (b) Describe the variables in the following formula:

$$T_o = Q_m/Q_x$$

(4 marks)

$$T_G = \frac{Q_{m1}/Q_{m0}}{Q_{x1}/Q_{x0}}$$

(4 marks)

(c) Critically examine barter terms of trade

(14 marks)

Q5 (a) Explain the causes of disequilibrium in balance of payment in Kenya

(10 marks)

(b) Discuss the following in relation to General agreement on Trade and tariffs:

(i) Origin

(5 marks)

(ii) Objectives

(5 marks)