

**ECS302E
ECO3M1E**

May/June 2009

INTERNATIONAL TRADE (ECONOMICS 302)

Duration 2 Hours

100 Marks

EXAMINERS
FIRST
SECOND
EXTERNAL

PROF NM ODHIAMBO
MS K AMUSA
MR ZC BOTHA

This examination paper consists of 1 page

Answer **FOUR** of the following **SIX** questions Each question counts 25 marks

- 1 Discuss the theory of comparative advantage by David Ricardo What are the assumptions necessary for this theory to hold in its purest form? How does this theory differ fundamentally from Smith's theory of absolute advantage? [25]
- 2 Explain how the factor proportions theory can be used to explain the pattern of trade between two countries, outlining the assumptions necessary for the theory to hold in its purest form Explain how subsequent tests of the factor proportions theory have sought to contradict the original predictions of this theory [25]
- 3 Compare and contrast the effects of a tariff and an import quota as alternative methods of protecting a domestic industry If the government of a small country wants to reduce the amount of textile imports to a specific quantity, should it use a tariff or an import quota? Give reasons for your answer [25]
- 4 (a) Briefly explain the main forms of economic integration [15]
(b) Discuss the trade creation and trade diversion that occur when a country joins a customs union Can a trade-diverting customs union result in trade creation? [10]
[25]
- 5 Discuss the costs and benefits of multinational corporations to the home and host countries Who gains? Who loses? [25]
- 6 Discuss the main principles underlying the operation of the World Trade Organisation (WTO) How does the WTO differ from its predecessor, the General Agreement on Tariffs and Trade (GATT)? [25]