



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2018/2019 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF SCIENCE IN**

**ECONOMICS/ECONOMICS AND**

**STATISTICS/FINANCIAL ECONOMICS**

**COURSE CODE: ECO 3104**

**COURSE TITLE: INTERNATIONAL ECONOMICS I**

**DATE: 11<sup>TH</sup> DECEMBER, 2018**

**TIME: 0830 - 1030 HRS**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of **TWO** printed pages. Please turn over.*

## QUESTION ONE

- (a) While the H-O model can explain Brazil's world leadership in producing steel and sugar, it does not explain Japan's leadership in producing automobiles (vehicles). Discuss this statement in relation to H-O theory and current trade patterns. **(10marks)**
- (b) Using graphs show how community indifference curves or marginal rate of substitution represent aggregate tastes or preferences of society, which in turn send signals to producers of goods and services in a country. **(7marks)**
- (c) Discuss the weaknesses in mercantilism doctrine that David Hume identified that laid basis for free trade **(8marks)**

## QUESTION TWO

- (a) Explain how mercantilists achieved their objectives **(8marks)**
- (b) What are the six assumptions of the Ricardian model and explain what each assumption implies. **(7marks)**

## QUESTION THREE

- (a) Use graphs to show how, from a point of specialization, country A can transform its production of good Y into good X through domestic production and trade the surplus good X with supplies of good Y from country B. **(8marks)**
- (b) Explain the two main sources of gains from trade that allow both country A and B to be better off with trade. **(7marks)**

## QUESTION FOUR

- (a) Use consumer tastes as a major factor in influencing trade patterns to show deficiencies in H-O theory **(8marks)**
- (b) Explain the product cycle theory and show how Vernon arrived at his conclusion for his theory **(7marks)**

## QUESTION FIVE

- (a) Import substitution industrial has failed as economic development option for developing countries. Discuss. **(9marks)**
- (b) Explain the disadvantages Kenya may suffer by joining the East African Cooperation **(6marks)**

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