



*“Investing in Africa’s future”*

**COLLEGE BUSINESS PEACE LEADERSHIP AND GOVERNANCE**

**NMEC302: INTERNATIONAL ECONOMICS- TRADE**

**END OF SEMESTER FINAL EXAMINATIONS**

**NOVEMBER 2022**

**LECTURER: MR T. MASESE**

**DURATION: 3 HOURS**

---

**INSTRUCTIONS**

Answer **ANY FOUR QUESTIONS** from this paper

DO NOT repeat material.

Write legibly.

Credit is given to application of theory and practice

## Question 1

- a. Many countries advocate for free trade. Discuss some of the common arguments in favor of free trade **(6 marks)**
- b. Why did the Mercantilists consider holding of precious metals so important to nation-state building? Briefly explain why the ideas of Smith and Hume were so devastating to Mercantilism thinking and policy? **(7 marks)**
- c. The following table shows the hours of labor required to produce 1 unit of each commodity in each country

	<i>Wheat</i>	<i>Clothing</i>
United States	3 hrs.	9 hrs.
United Kingdom	4 hrs.	4 hrs.

- i. Which country has an absolute advantage in wheat? In clothing? Why? **(3 marks)**
  - ii. If trade takes place between the United States and the United Kingdom at a barter price of 1 clothing for 2 wheat (or 1 wheat for 1/2 clothing), why does each country gain from trade? Explain. **(4 marks)**
- d. In Zambia, a small country the free trade price of a good is \$12 and a 10 percent ad valorem tariff is put in place. As a result, domestic production in a small country rises from 2,000 units to 2,300 units and imports fall from 600 units to 200 units. What is the volume of trade before and after the tariff? Who are the winners and losers? Calculate the size of their gains and losses. What is the net effect on society? **(6 marks)**

## Question 2

- a. Suppose that the US Congress imposes a tariff on imported autos to protect the U.S. car industry from foreign competition. Assuming that the U.S. is a price taker in the world car market, show on a diagram: the change in the quantity of imports, the loss to U.S. consumers, the gain to U.S. manufacturers, government revenue, and the deadweight loss associated with the tariff. The loss to consumers can be decomposed into three pieces: a

transfer to domestic producers, a transfer to the government, and a deadweight loss. Use your diagram to identify these three pieces.

**(4 marks)**

- b. You are given the following information about copper in the European Union:

	<i>Situation with tariff</i>	<i>Situation without tariff</i>
World price	1.50 euros per kg	1.50 euros per kg
Tariff (specific)	0.15 euros per kg	0
EU domestic price	1.65 euros per kg	1.50 euros per kg
EU consumption	200 million kg	230 million kg
EU production	160 million kg	100 million kg

- a. Draw a supply–demand diagram on the basis of these data and indicate imports with and without the tariff **(3 marks)**.
- b. Calculate the following explaining briefly the meaning of each calculation.
  - i. The gain/loss to EU consumers and producers from removing the tariff **(3 marks)**
  - ii. The loss of tariff revenue to government when the tariff is removed **(2 marks)**
  - iii. The net gain or loss to the EU economy as a whole. What implicit assumptions do you make in reporting a net result? **(3 marks)**
- c. The above problem assumes that the EU acts as a small country in the world copper market, because the world price remains constant at 1.50 euros per kilo. Assume instead that EU is a large country and with the 0.15 euro tariff the world price becomes 1.45 euros per kilo, EU consumption falls to 210 million kilos and EU production rises to 140 million kilos. Show that new situation diagrammatically and calculate the effect of the tariff on EU consumers, EU producers, government, and the economy as a whole **(5 marks)**
- d. Write a briefly advocating or criticizing each of the following policy positions:
  - i. The government should not allow imports if foreign firms are selling below their costs of production (a phenomenon called “dumping”) **(2 marks)**
  - ii. The government should temporarily stop the import of goods for which the domestic industry is new and struggling to survive **(2 marks)**
  - iii. The government should not allow imports from countries with weaker environmental regulations than ours **(2 marks)**

### Question 3

- How does the gravity model of trade explain the effect of country size on trade? What other factors besides size explain trade patterns? What other tools do policymakers use to affect the amount of trade between countries besides tariffs? **(10 marks)**
- What is a tariff? Discuss the various types of tariffs describing the advantages and disadvantages of each type. Use a diagram to illustrate the welfare effect of a tariff **(8 marks)**
- Suppose that Germany has a trade surplus with Sweden. Explain how the price-specie flow mechanism would work and bring about balanced trade between the two countries given sufficient adjustment time. What are the critical assumptions of the price-specie flow mechanism? What happens to the trade balance in German if the demand for trade goods is inelastic? Why? **(7 marks)**

### Question 4

- Suppose that a (small) country is an importer of good X, for which the current world price is \$8. At that price with free trade, home producers are supplying 500 units of good X and the country is importing 300 units. It is now rumored that a 10 percent import duty will be imposed on good X. Estimate the welfare impacts that would occur with such a tariff, given that the elasticity of demand by consumers for good X is -2.0 and that the elasticity of home supply is 1.6 **(10 marks)**
- Imagine that winemakers in Nyanga petitioned the state government to tax wines imported from Cape Town. They argue that this tax would both raise tax revenue for the state government and raise employment in the Zimbabwean wine industry. Do you agree with these claims? Is it a good policy? **(5 marks)**
- What is an import quota? Compare its economic effects with those of a tariff. **(5 marks)**
- China and the US are producers of both wheat and cloth and the hours needed to produce a kg of wheat in each of the countries.

	<b>In China</b>	<b>In the US</b>
1 Unit of Wheat	1.5 hours	2 hours
1 Unit of Cloth	1 hour	4 hours

Determine the autarky exchange rates between wheat and cloth in each of the two countries. Should trade occur between the two countries, which country will export wheat and which country will export cloth? What will be the exchange rate of the two commodities between the two countries?

**(6 marks)**

### **Question 5**

- a. Free-trade areas are far more common than customs unions. Briefly explain the following types of preferential trade blocs' concepts: free trade area, customs union, common market, economic union, monetary union and political unions. Give two political and two economic arguments for and against regional integrations? **(13 marks)**
- b. Suppose the electronic calculator industry faces severe foreign competition, and CZI asks you to prepare a position paper its lobbyist can use to seek government assistance. Contrast the consequences of imposing a quota, negotiating a VER, and providing a production subsidy **(7 marks)**
- c. What are the main provisions of the O-H theory and how does it explain the existence of trade **(5 marks)**

**END OF PAPER**