AFRICA UNIVERSITY
A United Methodist-Related Institution
"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

COURSE CODE AND TITLE: MEC 302 International Trade

END OF FIRST SEMESTER EXAMINATION

NOVEMBER 2019

LECTURER: Mr L. NGENDAKUMANA

DURATION: 3 HOURS

INSTRUCTIONS

Answer **any Five [5] questions.**
Total possible mark is 100

Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the section.

Show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

Question One

Briefly explain the following concepts used in international trade

a.	Arbitrage	[2]
b.	Comparative advantage	[3]
c.	Inter-industry trade	[3]
d.	Ad valorem tariff	[3]
e.	Consumer surplus	[3]
f.	Nationally optimal tariff	[3]
g.	Import quota	[3]

Question Two

Malawi imports sugar. With free trade at the world price of $1 per kg, the country national market is:

Domestic production	120 million kg per year
Domestic consumption	420 million kg per year
Imports	300 million kg per year

Malawi government now decides to impose a quota that limits sugar imports to 240 million kg per year. With the import quota in effect, the domestic price rises to $1.20 per kg and domestic production increases to 160 million kg per year. The government decides to auction the rights to import the 240 million kg per year.

(a) Calculate how much domestic producers gain or lose from the quota [5]
(b) Calculate how much domestic consumers gain or lose from the quota [5]
(c) Calculate how much the government receives in payment when it auctions the quota rights to import [5]
(d) Calculate the net national gain or loss from the quota. Explain the economic reason(s) for this net gain or loss [5]

Question Three

In the early 2010s, Nigeria imported about 3 billion barrels of oil per year. Perhaps it would be better for Nigeria if it could end the billions of dollars of payments to foreigners by not importing this oil. After all, Nigeria can produce its own oil (or other energy products that substitute for oil). If Nigeria stopped all oil imports suddenly, it would be very disruptive. But perhaps Nigeria could gain if it gradually restricted and then ended oil imports in an orderly transition. If we allow time for adjustments by the U.S consumers and producers of oil, and we perhaps are a bit optimistic about how much adjustment is possible, then the following two equations show domestic demand and supply conditions in Nigeria:

Demand: $P = 38.9 - 3Q_D$

Supply: $P = 0.2 + 6Q_S$

Where quantity Q is in billions of barrels per year and price P is in dollars per barrel.

a) With free trade and an international price of $20 per barrel, how much oil does Nigeria produce domestically? How much does it consume? Show the demand and supply curves on a graph and label these points. Indicate on the graph the quantity of Nigeria imports of oil. **[7]**

b) If Nigeria stopped all imports of oil (in a way that allowed enough time to for orderly adjustments as shown by the equations), how much oil would be produced in Nigeria? How much would be consumed? What would be the price of oil in Nigeria with no oil imports? Show all of this on your graph. **[7]**

c) If Nigeria stopped all oil imports, which group(s) in Nigeria would gain? Which group(s) would lose? As appropriate, refer to your graph in your answer. **[6]**

Question Four

(a). Using clearly labelled diagram, briefly discuss the effects of a tariff on producers and consumers.

[12]

(b). Under which circumstances would these effects differ from those of a quota?

[8]

Question Five

(a) Which of the following trade policy moves is more certain to bring gains to the world as a whole (i) imposing a countervailing duty against an existing foreign export subsidy, (ii) forming a customs union in place of a set of tariffs equally applied to imports from all countries, or levying an antidumping import tariff? Explain **[6]**

(b) Distinguish between a free trade area and a customs union **[5]**

(c) State and explain the main pros and cons of taking the import- replacing road to industrialization versus concentrating government aid and private energies on developing new manufacturing exports **[9]**

Question Six

(a) After distinguishing between tariff and nontariff barriers to imports, define each of the following import policies and describe its likely effects on the well-being of the importing country as a whole: (i)voluntary export restraints, (ii) a tariff **[12]**

(b) State and explain the main pros and cons of implementing protectionism in trade **[8]**

End of Paper