



***"Investing in Africa's Future"***

**COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES**

**NMEC408 INTERNATIONAL ECONOMICS**

**SECOND SEMESTER EXAMINATIONS**

**APRIL 2026**

**LECTURER: DR T MASESE**

**TIME: 3 HOURS**

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### **INSTRUCTIONS**

ANSWER ANY **FOUR QUESTIONS** FROM THIS PAPER

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

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CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

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### Question 1

- a) Explain the principle of comparative advantage and demonstrate how it differs from absolute advantage **(10 marks)**
- b) Using a two-country, two-good framework, illustrate how gains from trade arise even when one country has an absolute advantage in both goods. **(10 marks)**
- c) The domestic radio industry in Botswana adds value to imported inputs by assembling component TV parts imported from abroad. The imported components enter Botswana on 10% duty. Twenty percent (20%) of a radio's final value can be attributed to domestic assembly activities (value added) with the remaining 80 percent reflecting the value of the imported components. The cost of the radio components are the same for both Botswana and the foreign country. The foreign country can produce a radio for \$100. Suppose Botswana imposes a nominal tariff of 10 percent on finished radios, so that the domestic import price rises from \$100 to \$110 per unit. What is the effective rate of protection? **(5 marks)**

### Question 2

- a) Outline the main assumptions of the Heckscher–Ohlin theory of international trade. **(10 marks)**
- b) Zambia is a small country whose exports of steel pipes does not affect the world price of \$100 per pipe. With free trade the firms in the country's competitive steel-pipe industry produce 160 million pipes per year. The domestic demand for steel pipes is 70 million pipes per year. The Zambian government then decides to offer to its firms an export subsidy of \$20 per pipe. As a result of this subsidy domestic production rises from 160 to 190 million and domestic consumption falls from 70 to 50 million.
  - i. What is the level of the country's exports before and after the subsidy? **(2 marks)**
  - ii. Who are the winners and losers in the exporting country and what are the losses or winnings **(5 marks)**
  - iii. Using demand/supply diagram illustrate and explain the effects of the export subsidy to the country's welfare. **(5 marks)**
  - iv. What is the value of the consumption and the production effect respectively? **(3 marks)**

### Question 3

- (a) Distinguish between tariffs, quotas, and subsidies as instruments of trade policy. What are the advantages and disadvantages of using each of these tools **(10 marks)**
- (b) 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 rumoured that a 10 percent import duty will be imposed on good X. Show this information a demand/supply diagram and calculate the value of the tariff's consumption, protective, redistributive, and revenue effects given that the elasticity of demand by consumers for good X is -2.5 and that the elasticity of home supply is 1.9. **(15 marks)**

#### **Question 4**

- (a) Describe the structure of the Balance of Payments (BOP) accounts **(10 marks)**
- (b) Explain the elasticities approach to balance of payments adjustment and discuss the conditions under which currency devaluation improves the trade balance **(15 marks)**

#### **Question 5**

- (a) Compare fixed and floating exchange rate regimes **(10 marks)**
- (b) Evaluate the suitability of a fixed exchange rate regime for a developing country facing frequent external shocks **(15 marks)**

#### **Question 6**

Using the Mundell–Fleming model, analyse the effectiveness of monetary policy under Fixed exchange rates and Floating exchange rates. Assume high capital mobility **(25 marks)**

**END OF EXAMINATION**