

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

1<sup>ST</sup> SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE  
OF BACHELOR OF SCIENCE IN ECONOMICS AND  
STATISTICS

**ECON 435: INTERNATIONAL ECONOMICS I**

***STREAM: BSC. EON STAT/SOCI***

***TIME: 2 HRS***

***DAY: FRIDAY [14.30-16.30 P.M]***

***DATE: 8/12/2023***

**THIS QUESTION PAPER CONSISTS OF TWO (2) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**



*Instruction: answer three questions.*

**Question one is compulsory**

**QUESTION ONE**

- a) International trade is based on comparative advantage'. Discuss this statement and explain how David Ricardo's comparative advantage theory differs from Adam Smith's absolute advantage theory. Use worked examples to illustrate your answer **(12 Marks)**
- (b) Provide an alternative explanation for the global income distribution instability. **(9 Marks)**.
- (c) Explain reasons as to why price levels are often higher in rich countries than in poor countries **(9 Marks)**

**QUESTION TWO**

- a) In reference to international trade, discuss the differences in the intensity of protection when it comes to finished goods industries compared to when it comes to industries producing inputs. **(10 Marks)**
- b) A recent model argues that the world income distribution has remained unstable because of rapidly growing deterioration in the absolute cost benefit. In the context of the Smithian hypothesis, what would you infer from such distribution instability? **(10 Marks)**.

**QUESTION THREE**

- a) Why do countries erect trade barriers? Who gains and who loses from such barriers? Illustrate your answer regarding the welfare and trade effects of import tariffs and quotas on society. Use an appropriate diagram or diagrams. **(12 Marks)**
- b) Explain the concepts of 'trade creation' and 'trade diversion'. Illustrate their welfare effects on society. **(8 Marks)**

**QUESTION FOUR**

- a) Outline the potential costs and benefits for Kenya's Foreign Direct Investment (FDI) inflows and outflows. **(10 Marks)**
- b) Explain the welfare effects on a country joining a regional trade and customs union within the Eastern Africa regional economic block. **(10 Marks)**

**QUESTION FIVE**

- a) Evaluate the potential costs and benefits for a developing country that practices the economic policy of non-regional socio-political alignment. **(10 Marks)**
- b) To what extent has international borrowing been detrimental to international trade growth? **(10 Marks)**

