UGANDA MARTYRS UNIVERSITY

FACULTY OF SCIENCE

DEPARTMENT OF ECONOMICS

UNIVERSITY EXAMINATIONS
SEMESTER I, 2012/13

THIRD YEAR EXAMINATIONS FOR BACHELOR OF SCIENCE
(B.ECON & GEN)

ECO. 3103: INTERNATIONAL ECONOMICS

DATE: 18TH DECEMBER 2012

TIME: 9:00 – 12:00 NOON

Instructions:

*i) Answer any **FOUR (4)** questions.*
iii) Well argued and illustrated answers will earn more marks.

Question One

How it it possible that trade and mutual benefits can accrue to the two countries which agree to open up trade between them but one of these countries is better at production of both commodities? What is the exception to this possibility?

Question Two

Can mutual trade take place between countries with identical production possibility frontiers but with totally different tastes (i.e. one has better taste for a commodity which the other has greater distaste and vice versa)?. What would be the resultant effects on their welfare?

Question Three

How does the Heckscher – Ohlin theory of international trade explain factor price equalization in spite of the fact that factors of production are not allowed to cross the borders of the trading partners? How is the factor price equalization affect the distribution of income among factor owners in the trading partners?

Question Four

Why do countries throw barriers in the way of international trade if such trade is beneficial to all trading partners? What types of trade barriers do countries resort to in implementing suchh restrictions?

Question Five

What is a trade diverting customs union? How can such a union have both the elements of trade creation and trade divertion?

Question Six

What is a meant by the balance of payments? What constituent elements go in compiling the balance of payments statement? Of what use is this statement?

Question Seven

What is a foreign exchange market? How can the different exchange rate regimes help to solve an unfavourable balance of payments?