

# CENTRAL UNIVERSITY COLLEGE



RESIT EXAMINATION: 2015/2016

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

ECON 306: (3 CREDITS)

INTERNATIONAL TRADE THEORY AND POLICY

LEVEL 300

August, 2016

DURATION: 2 1/2 HOURS

STUDENT ID No.....

## INSTRUCTIONS

ANSWER ANY 3 (THREE) QUESTIONS

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THE INVIGILATOR

LECTURER: PROF ADUSEI JUMAH

**QUESTION 1**

**(20 marks)**

- A. State the law of comparative advantage. **(2 marks)**
- B. How does comparative advantage differ from absolute advantage? **(4 marks)**
- C. What is the difference between the Ricardian model and the Heckscher-Ohlin model? **(4 marks)**
- D. Why do changes in relative prices have strong effects on income distribution in the Heckscher-Ohlin model? **(4 marks)**
- F. State the three similarities between the Ricardian model and the Heckscher-Ohlin model? **(6 marks)**

**QUESTION 2**

**(20 marks)**

- A. What is meant by biased expansion of production possibilities and how does it affect our understanding of how differences in resources give rise to international trade? **(4 marks)**
- B. What are specific factors and how do they help explain the short-run income distribution of trade? **(4 marks)**
- C. Differentiate between the Ricardian model and the Heckscher-Ohlin model based on their assumptions about the determinants of production possibilities. **(4 marks)**.
- D. Economic growth means an outward shift of a country's production possibility frontier.
  - (i) Explain the international trade effects of growth in terms of the production possibilities frontier and a country's resources. **(4 marks)**
  - (ii) By means of the Ricardian and the Heckscher-Ohlin models, respectively, state why growth can be biased. **(4 marks)**

**QUESTION 3**

**(20 marks)**

- A. In oligopolies, the pricing policies of firms are interdependent.
  - (i) State two pricing policies of oligopolistic firms that make them interdependent. **(4 marks)**
  - (ii) What two assumptions are made in the case of monopolistic competition firms in order to enable them get around the problem of interdependence. **(4 marks)**

- (iii) State the two limitations of the monopolistic competition model as opposed to the oligopolistic model. (4 marks)
- (iv) Discuss the two main parts of world trade in a monopolistic competition model in its dealing with differentiated products. (4 marks)
- (v) What are the two conditions that have to be met before dumping can occur? (4 marks)

**QUESTION 4**

**(20 marks)**

- (i) State three reasons why complete factor-price equalization is not observed in the real world. (6 marks)
- (ii) Discuss how a country trades over time with reference to the real interest rate. (8 marks)
- (iii) Discuss the concept of intertemporal competitive advantage. (6 marks)

**QUESTION 5**

**(20 marks)**

- (i) Explain how multinational firms can be regarded as vehicles for international lending and borrowing. (8 marks)
- (ii) Discuss the two influential views about why activities in different countries may be integrated in a single firm. (8 marks)
- (iii) Discuss dumping as a consequence of imperfect competition for international trade. (4 marks)

**QUESTION 6**

**(20 marks)**

- (i) State three economists' arguments for free trade. (6 marks)
- (ii) By means of a diagram, explain the efficiency case for free trade (6 marks)
- (iii) Explain the concept of Preferential Trading Agreements. (4 marks)
- (iv) Differentiate between a Free Trade Area and a Customs Union. (4 marks)