

ATTENDANCE SLIP

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UNIVERSITY OF JOHANNESBURG
DEPARTMENT OF ECONOMICS



Final Assessment June 2016

Course : International Economics
Course code : EKN3A01/ECO3AA3
Examiners : Dr. T Greyling
: Dr. B Maphela

Time: 150 Minutes
Marks: 110

Internal Moderator : Dr. P Baur
External moderator : Prof. M Matthee

INSTRUCTIONS:

- Answer the multiple choice questions on the included answersheets.
- Answer all questions on the paper. (Fill in)
- This question paper consists of 13 pages.
- **1 mark will be deducted** for every word spelt in SMS language
- Round off your answers to **3 Decimal places**

MARK ALLOCATION

Question	Mark	Mark	Audit
1	6		
2	16		
3	13		
4	15		
5	22		
6	8		
7	30		
Total	110		

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QUESTION 1

(6 MARKS)

It is argued that South Africa would be foolish to maintain a free-trade stance in a world in which all other countries are protectionist. On the other hand, Ricardo's classic demonstration of the sources and effects of comparative advantage cogently demonstrates that regardless of other country policy, free trade remains the first best policy for a country to follow, since it will maximize its consumption possibilities (conditional upon other country policies). Evaluate this statement.

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QUESTION 2

(16 MARKS)

Suppose South Africa and China produce two products namely hamburgers and T-shirts. South Africa uses 12 hours to produce a T-shirt and 3 hours to produce a Hamburger and China uses 8 hours to make a T-shirt and 4 hours to make a hamburger. Assume both countries have 2400 hours in total available for production. Answer the questions that follow.

Summarise the above mentioned information in the following table:

	Hamburgers	T-shirts
South Africa		
China		

2.1 Draw the production possibility curves for each country. (8)

South Africa	China
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2.2 Who enjoys the absolute advantage in which product? Motivate your answer. (2)

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2.3 Who has a higher opportunity cost of making T-shirts, show the calculations? (2)

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2.4 Who has a comparative advantage in producing hamburgers, show the calculations? (2)

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2.5 At which price will hamburgers likely trade if these two countries start trading? (2)

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QUESTION 3**(13 MARKS)**

Suppose in the year 2015, Australia had a population of 45 million and its capital stock was US\$90 000million, and the corresponding figure for Malaysia was 30 million and US \$75 000 million. Answer the following questions based on the information.

3.1 Describe the Heckscher-Ohlin Theory (3).

3.2 Which country is capital abundant and why? (3)

3.3 If production of cloth is labour intensive relative to the production of computers, which country would export cloth, if engaged in trade, explain your answer. (3)

3.4 Explain why the results of Leontief paradox in the analysis of the US's exports contradict the factor-proportions theory. (4)

QUESTION 4**(15 MARKS)**

4.1 Assume there are only two countries in the world that manufacture aircrafts, namely the US and France. Assume that production of aircrafts are subject to external economies of scale, which leads to the forward falling supply curve of aircrafts in each country. Graphically represent this case, (with the US being the low cost producer) before the countries trade and the equilibrium position after the countries have started to trade. Discuss the graphs. (15)

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Before trade: (5)

After Trade (5)

Discussion (5)

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QUESTION 5**(22 MARKS)**

5.1 In the context of national welfare, prove free trade is more beneficial to a country's total welfare than imposing a tariff to protect import competing industries. Discuss this by referring to winners and losers and the net effect on the welfare of a country after the imposition of a tariff and provide graphical support to your answer. (12)

Graph:

Discussion:

5.2 In addition to tariffs that is used to protect import competing industries against imports from lower cost producing countries, which other instruments can be used to achieve similar results. List and discuss at least three examples. (No marks are allocated for only listing the instruments.) (6)

5.3 It is argued that import substitution is a misguided trade policy if the intent is to promote long-term economic growth. Evaluate this statement and explain the reasons underlying this argument. (4)

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QUESTION 6**(8 MARKS)**

6.1 Give a graphical representation of the Environmental Kuznet's curve. (3)

6.2 Describe the Environmental Kuznets curve. (2)

6.3 What is a pollution haven? What does that imply for the direction of trade between countries? (3)

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QUESTION 7**(30 MARKS)****ANSWER QUESTION 7 ON THE ANSWER SHEET PROVIDED AT THE END OF THE PAPER.**

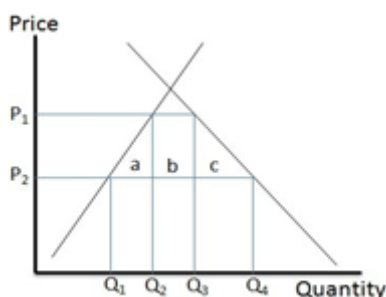
- 7.1** Trade theorists have proven that the gains from international trade
- A) must raise the economic welfare of every country engaged in trade.
 - B) must raise the economic welfare of everyone in every country engaged in trade.
 - C) must harm owners of "specific" factors of production.
 - D) will always help "winners" by an amount exceeding the losses of "losers."
 - E) usually outweigh the benefits of protectionist policies.
- 7.2** According to the *gravity model*, a characteristic that tends to affect the probability of trade existing between any two countries is
- A) their cultural affinity.
 - B) the average weight/value of their traded goods.
 - C) their colonial-historical ties.
 - D) the distance between them.
 - E) the number of different product varieties produced by their industries.
- 7.3** Trade between two countries can benefit both countries if
- A) each country exports that good in which it has a comparative advantage.
 - B) each country enjoys superior terms of trade.
 - C) each country has a more elastic demand for the imported goods.
 - D) each country has a more elastic supply for the exported goods.
 - E) each country produces a wide range of goods for export.
- 7.4** In the specific factors model, the effects of trade on welfare are _____ for mobile factors, _____ for fixed factors used to produce the exported good, and _____ for fixed factors used to produce the imported good.
- A) ambiguous; positive; negative
 - B) ambiguous; negative; positive
 - C) positive; ambiguous; ambiguous
 - D) negative; ambiguous; ambiguous
 - E) positive; positive; positive
- 7.5** The Leontief Paradox
- A) refers to the finding that U.S. exports were more labour intensive than its imports.
 - B) refers to the finding that U.S. Exports were more capital intensive than its exports.
 - C) refers to the finding that the U.S. produces outside its Edgeworth Box.
 - D) still accurately applies to today's pattern of U.S. international trade.
 - E) refers to the fact that Leontief—an American economist—had a Russian name.
- 7.6** If the ratio of price of cloth (P_C) divided by the price of food (P_F) increases in the international marketplace, then
- A) the cloth exporter will increase the quantity of cloth produced.
 - B) the cloth exporter will increase the quantity of cloth exported.
 - C) the food exporter will increase the quantity of food exported.

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- D) the cloth exporter will decrease the quantity of cloth exported.
- E) the country would import more cloth.

- 7.7** If a firm's output doubles when all inputs are doubled, production is said to occur under conditions of
- A) increasing returns to scale.
 - B) imperfect competition.
 - C) intra-industry equilibrium.
 - D) constant returns to scale
 - E) decreasing returns to scale.
- 7.8** The simultaneous export and import of widgets by the United States is an example of
- A) intra-industry trade.
 - B) increasing returns to scale.
 - C) imperfect competition.
 - D) inter-industry trade.
 - E) the effect of a monopoly on international trade.
- 7.9** Of the many arguments in favour of tariffs, the one that has enjoyed significant economic justification has been the
- A) cheap foreign labour argument.
 - B) infant industry argument.
 - C) even playing field argument.
 - D) balance of payments argument.
 - E) domestic living standard argument.
- 7.10** The efficiency case made for free trade is that as trade distortions such as tariffs are dismantled and removed
- A) government tariff revenue will decrease, and therefore national economic welfare will decrease.
 - B) government tariff revenue will decrease, and therefore national economic welfare will increase.
 - C) deadweight losses for producers and consumers will decrease, hence increasing national economic welfare.
 - D) deadweight losses for producers and consumers will decrease, hence decreasing national economic welfare.
 - E) government tariff revenue will increase, hence increasing national economic welfare.
- 7.11** Which of the following could explain why the terms of trade of developing countries might deteriorate over time?
- A) Developing country exports consist mainly of manufactured goods.
 - B) Developing country exports consist mainly of primary products.
 - C) Commodity export prices are determined in highly competitive markets.
 - D) Commodity export prices are solely determined by developing countries.
 - E) Developing country exports are too diverse.

- 7.12** If firms in an industry are generating knowledge that other firms can use without paying for it, this industry is characterized by
- A) social costs that exceed private costs.
 - B) social benefits that exceed private benefits.
 - C) social costs that exceed social benefits.
 - D) private benefits that exceed social benefits.
 - E) social benefits that undermine private benefits.
- 7.13** When there are external economies of scale, an increase in the size of the market will
- A) increase the number of firms and lower the price per unit.
 - B) increase the number of firms and raise the price per unit.
 - C) decrease the number of firms and raise the price per unit.
 - D) decrease the number of firms and lower the price per unit.
 - E) not affect the number of firms, but will lower the price per unit.
- 7.14** The imposition of tariffs on imports results in deadweight (triangle) losses. These are
- A) production and consumption distortion effects.
 - B) redistribution effects.
 - C) revenue effects
 - D) efficiency effects.
 - E) distortion of incentives.



- 7.15** Refer to the figure above, which shows domestic supply and demand. If P_1 is equal to P_2 (the world price) plus a tariff, then the social loss from the tariff is equal to
- A) $a + c$
 - B) b
 - C) $P_1 (Q_3 - Q_2)$
 - D) $P_2 [(Q_2 - Q_1) + (Q_4 - Q_3)]$
 - E) $a + b + c$

QUESTION 7: MULTIPLE CHOICE ANSWERSHEET

	A	B	C	D	E
7.1					
7.2					
7.3					
7.4					
7.5					
7.6					
7.7					
7.8					
7.9					
7.10					
7.11					
7.12					
7.13					
7.14					
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