



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: 12BECO	LEVEL: 7
COURSE CODE: INT711S	COURSE NAME: INTERNATIONAL TRADE
SESSION: MAY/JUNE 2022	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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INSTRUCTIONS
1. Answer ALL questions. 2. Write clearly and neatly. 3. Number the answers clearly.

PERMISSIBLE MATERIALS

1. PEN,
2. PENCIL
3. CALCULATOR

THIS QUESTION PAPER CONSISTS OF 5 PAGES (Including this front page)

Write only the number and the letter representing your choice in caps i.e., 1. A, 2. B 3. C 4. D etc.

1. The institutional framework developed in 1947 to promote trade liberalization is known as
 - a) the WTO
 - b) the GATT
 - c) the IMF
 - d) the World Bank

2. According to the theory of comparative advantage, which of the following is not a reason why countries trade?
 - a) Comparative advantage.
 - b) Costs are higher in one country than in another.
 - c) The productivity of labor differs across countries and industries.
 - d) Exports give a country a political advantage over other countries that export less.

3. When several countries jointly impose common external tariffs, eliminate tariffs on each other, and eliminate barriers to the movement of labor and capital among themselves, they have formed a/an
 - a) free trade area
 - b) customs union
 - c) common market
 - d) economic union

4. A tariff can _____ raise a country's welfare
 - a) never
 - b) sometimes
 - c) always
 - d) Permanently

5. Which of the following statements would a mercantilist not agree with?
 - a) Imports are desirable.
 - b) Trade is a zero-sum activity.
 - c) The purpose of trade is to amass revenues from exports.
 - d) A country can benefit by granting monopoly rights to individuals.

6. Which round of international trade negotiations resulted in the creation of the World Trade Organization?
 - a) Kennedy Round of 1964-1967 b.
 - b) Tokyo Round of 1973-1979
 - c) Uruguay Round of 1986-1993
 - d) Doha Round of 2003-2007

7. According to the theory of comparative advantage, a country will export a good only if:
 - a) Its productivity is higher in producing the good than the productivity of other countries in producing it.
 - b) Its wage rate in producing the good is lower than in other countries.
 - c) Its cost of producing the good, relative to other goods, is at least as low as in other countries.

- d) All of the above.
8. The Heckscher-Ohlin theory explains comparative advantage as the result of differences in countries':
- a) Economies of large-scale production.
 - b) Relative abundance of various resources.
 - c) Relative costs of labor.
 - d) Research and development expenditures.
9. Trade creation takes place when
- a) a country moves from autarky to free trade
 - b) a movement to a customs union reduces the costs of trade through standardization
 - c) economic integration results in a movement in product origin to a lower-cost member country
 - d) economic integration results in a shift in product origin from a lower-cost, nonmember country to a member country having higher costs
10. According to the theory of comparative advantage, countries gain from trade because
- a) Trade makes firms behave more competitively, reducing their market power.
 - b) Output per worker in each firm increases.
 - c) World output can rise when each country specializes in what it does relatively best.
 - d) Every country has an absolute advantage in producing something.
11. The NAFTA is a:
- a) monetary union
 - b) free trade area
 - c) common market
 - d) customs union
12. A main advantage of specialization results from:
- a) Economics of large scale production
 - b) b. The specializing country behaving as a monopoly
 - c) c. Smaller production runs resulting in lower unit costs.
 - d) d. High wages paid to foreign workers
13. International trade is based on the idea that:
- a) Exports should exceed imports
 - b) Imports should exceed exports
 - c) Resources are more mobile internationally than are goods
 - d) Resources are less mobile internationally than are goods
14. Most tariffs have:
- a) only revenue effects
 - b) only protective effects
 - c) both protective and revenue effects
 - d) neither protective or revenue effects
15. When one country provides most favored nation status (normal trade relations) for another, it agrees to
- a) charge that nation's products a lower tariff than any other nation's

- b) charge that nation's products a tariff rate no higher than that on any other nation
 - c) charge that nation's products a higher tariff than any other nation's
 - d) exports to that nation any products that it wants to purchase
16. If international trade takes place as a result of comparative advantage, it will cause which of the following effects in the participating countries?
- a) Inequality among households will be reduced.
 - b) The average well-being of people in both countries will increase.
 - c) Both countries will grow faster over time.
 - d) All of the above
17. Mercantilism
- a) Is the philosophy of free international trade.
 - b) Was a system of export promotion and barriers to imports practiced by governments.
 - c) Was praised by Adam Smith in The Wealth of Nations.
 - d) Both (a) and (c).
18. The World Trade Organization is sometimes criticized for all of the following reasons except
- a) it reduces the sovereignty of member countries
 - b) favors free trade over the quality of the environment
 - c) it has no way to solve trade disputes among member countries
 - d) it is a "puppet" of multinational corporations
19. If Namibia wishes to reduce its current account deficit would be advised to:
- a) Engage in more government spending.
 - b) Reduce government tax.
 - c) Decrease domestic consumption spending.
 - d) Increase private investment spending.
20. A primary reason why nations conduct international trade is because:
- a) Some nations prefer to produce one thing while others produce another
 - b) Resources are not equally distributed to all trading nations
 - c) Trade enhances opportunities to accumulate profits
 - d) Interest rates are not identical in all trading nations

SECTION B: STRUCTURED QUESTIONS

[60 MARKS]

QUESTION 1 [30 MARKS]

1. What is the difference between the main arguments by David Hume and Adam Smith on their critique of Mercantilism? (15)
2. Explain briefly what happens to the trade balance when demand is price inelastic, according to the price-specie-flow mechanism. (5)
3. One of the assumptions made by David Hume in criticising Mercantilism is that there is a link between money and prices. Explain this assumption briefly. (10)

QUESTION 2

[30 MARKS]

1. Select two of the post H-O theories of international trade explain each of them in details, discuss their similarities and differences (20)
2. Elaborate on the following terms:
 - a) Balance of Payments (5)
 - b) Absolute Advantage (5)

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