



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF HEALTH, NATURAL RESOURCES AND APPLIED SCIENCES

SCHOOL OF AGRICULTURE AND NATURAL RESOURCES SCIENCES

DEPARTMENT OF AGRICULTURAL SCIENCES AND AGRIBUSINESS

QUALIFICATION: BACHELOR OF SCIENCE IN AGRICULTURE (AGRIBUSINESS MANAGEMENT)	
QUALIFICATION CODE: 07BAGA	LEVEL: 7
COURSE CODE: ECT721S	COURSE NAME: ECONOMICS OF TRADE
DATE: NOVEMBER 2024	PAPER 1
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL the questions.2. Write clearly and neatly.3. Number the answers.

PERMISSIBLE MATERIALS

1. Examination question paper
2. Answering book

THIS QUESTION PAPER CONSISTS OF 9 PAGES (Excluding this front page)

SECTION 1 MULTIPLE-CHOICE QUESTIONS (20 MARKS)

Question 1

The source of gains from trade is

- a. tariff revenue
- b. self-sufficiency
- c. autarky equilibrium
- d. comparative advantage

(1 Marks)

Question 2

Izodian can produce 8 units of food per day or 12 units of clothing per day. Valentia can produce 5 units of food per day or 10 units of clothing per day. Which of the following is correct?

- a. mutually beneficial trade is not possible
- b. to maximize world production, Izodian should produce only food, Valentia should produce only clothing, and they should trade
- c. both countries should produce both goods and they should trade
- d. to maximize world production, Izodian should produce only clothing, Valentia should produce only food, and they should trade

(1 Mark)

Question 3

The world price is in equilibrium when

- a. half of the individual countries' domestic prices are higher, and half of the individual countries' domestic prices are lower
- b. the desired level of total world exports of the good equals the desired level of total world imports of the good
- c. each country's exports of this good equal its import of this good
- d. Supply and demand of goods and services are equal in the domestic economy

(1 Mark)

Question 4

Consumer surplus results when

- a. the quantity demanded of a product equals the quantity supplied of that product.

- b. the quantity demand of a product is greater than the quantity supplied of that product.
- c. a consumer buys a good for less money than he was willing to pay.
- D. a consumer buys surplus food than he wants to buy

(1 Mark)

Question 5

5. The world price is in equilibrium when

- a. half of the individual countries' domestic prices are higher, and half of the individual countries' domestic prices are lower
- b. the desired level of total world exports of the good equals the desired level of total world imports of the good
- c. each country's exports of this good equal its import of this good
- d. Supply and demand of goods and services are equal in the domestic economy

(1 Mark)

Question 6

13. Producer surplus is the

- a. excess supply which exists when the price is maintained above the world price
- b. difference between the marginal benefit of a product and the marginal cost producers incur in supplying the product
- c. difference between the actual revenue a producer receives and the minimum sum they would accept for a quantity of a good
- d. excess supply which exists when the price is maintained below the world price

(1 Mark)

Question 7

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 goods.
- d). Resources are less mobile internationally than goods.

(1 Mark)

Question 8

Arguments for free trade are sometimes disregarded by politicians because:

- a). Maximising domestic efficiency is not considered important.
- b). Maximising consumer welfare may not be a chief priority.
- c). There are sound economic reasons for keeping one's economy isolated from other economies.
- d). Economists favour highly protected domestic markets.

(1 Mark)

Question 9

Which of the following can lead to gainful trade except

- a). Consumer preferences
- b). Relative prices
- c). Opportunity cost
- d). Diseconomies of scale

(1 Mark)

Question 10

If Namibia and Zambia have identical production possibility curves that are subject to increasing opportunity costs:

- a). Trade will depend on differences in the demand conditions.
- b). Trade will depend on the economies of large-scale production.
- c). Trade will depend on differences in exchange rates.
- d). There will be no basis for gainful trade.

(1 Mark)

Question 11

The following exemplified the Mercantilist theory except

- A. Wage restrain
- B. Export restrain
- C. Import prohibition
- D Tariff levy

(1 Mark)

Question 12

A country can specialise in the production of commodities that they are capable and efficient at producing and exchanging with other countries for its other needs. This is the theory of

- A. Absolute advantage
- B. Comparative advantage
- C. Competitive advantage
- D. None of the above

(1 Mark)

Question 13

Which of the following statements is incorrect? In an imperfectly competitive market, there is

- A. Price discrimination
- B. Homogenous pricing
- C. Market segmentation
- D. Market failure

(1 Mark)

Question 14

The following are the benefits of specialization and division of labour, except,

- A. Higher standard of living
- B. High levels of efficiency
- C. High opportunity cost
- D. Increased world output

(1 Mark)

Question 15

A firm in country A dumps chicken into country B, what is the demand curve for this firm in countries A and B?

- A. The firm faces a downward demand curve in country A
- B. The firm faces a downward demand curve in country B.
- C. The firm faces a horizontal demand curve in country A.
- D. The firm faces an upward demand curve in country B.

(1 Mark)

Question 16

What is the meaning of “*an invisible hand of the market*”?

- A. Market segmentation
- B. Market equilibrium
- C. Market Access
- D. Market failure

(1 Mark)

Question 17

Prices for goods must reflect the market demand implies.

- A. Market segmentation
- B. *Ceteris Paribus*
- C. Market equalization
- D. Market equilibrium demand and supply

(1 Mark)

Question 18

Mr Jones imports a commodity from Japan into Namibia, at the port, he pays 21% of the value of the goods. This implies Mr Jones paid.

- A. An import tax
- B. A custom duty
- C. A specific tariff
- D. An ad valorem tariff

(1 Mark)

Question 19

Ricardo’s comparative advantage was based on the following assumptions, except,

- A. Two countries, two goods, two factors
- B. Two countries, two goods, one factor
- C. Homogeneity of goods
- D. Homogeneity of labour

(1 Mark)

Question 20

Suppose an electronic sells for N\$ 6000 per unit in the market, and the factor cost of producing it is N\$2000. What value did electronics add to the industry?

- A. N\$1000
- B. N\$4000
- C. N\$8000
- D.N\$12000

(1 mark)

SECTION 2 ESSAY-TYPE QUESTIONS (80 MARKS)

Question 2 (20 Marks)

The domestic demand and domestic supply curves for fruit juice in a small, closed economy are as follows:

Supply: $P = 2Q_s + 2$

Demand: $P = -Q_D + 32$

2.1 In this small, closed economy, calculate the value of

- a) Consumer surplus (CS) for the fruit juice market (1 Mark)
- b) Producer surplus (PS) for the fruit juice market (1 Mark)

2.2. Suppose that this small, closed economy is open to free trade and that the world price is \$10 per fruit juice.

- a. With free trade, what is the quantity supplied by domestic producers? (1 Mark)
- b. With free trade, what is the quantity demanded by domestic consumers? (1 Mark)
- c. With free trade, how much fruit juice will the country import or export? (1 Mark)
- d. Calculate the value of consumer surplus (CS^{trade}) (1 Mark)
- e. Producer surplus (PS^{trade}). (1 Mark)

2.3. Suppose that the government imposes a tariff of \$4 on each imported fruit juice, and the world price is \$10 per fruit juice.

- a. What is the quantity supplied by domestic producers after the introduction of the tariff?
(1 Mark)
- b. What is the quantity demanded by domestic consumers after the introduction of the tariff?
(1 Mark)
- c. How much fruit juice will the country import or export after the introduction of the tariff?
(1 Mark)

- d. Draw a graph and shade the areas of the consumer surplus (CS^{tariff}), the producer surplus (PS^{tariff}), the total tariff revenue (TR^{tariff}), and the deadweight loss (DWL) after the introduction of tariffs. (6 Marks)
- 2.4. After the introduction of the tariff, calculate the value of
- Consumer surplus (CS^{tariff}). (1 Mark)
 - Producer surplus (PS^{tariff}) for the fruit juice market. (1 Mark)
 - Calculate the value of total tariff revenue (TR^{tariff}). (1 Mark)
 - Calculate the value of the deadweight loss (DWL). (1 Mark)

Question 3 (20 Marks)

- 3.1. Both China and South Korea can produce cloths and wine which they can export to the world market. Use the information in the table 1 below to answer the following question.

Table 1

Countries	Cloths (kg)	Wine (litre)
China	120	80
South Korea	30	60

- 3.1.1. What is the opportunity cost of one litre of wine in South Korea? (1 Mark)
- 3.1.2. What is the opportunity cost of one litre of wine in China? (1 mark)
- 3.1.3. According to the principle of absolute advantage what trade opportunity exists for South Korea? (1 Mark)
- 3.1.4. According to the principle of comparative advantage what trade opportunity exists for China? (1 Mark)
- 3.1.5. With Trade what is the maximum amount of cloth China will be willing to export to South Korea in exchange for each litre of wine? (1 Mark)
- 3.1.6. With Trade what is the maximum amount of wine South Korea will be willing to export to China in exchange for each kg of cloth? (1 Mark)
- 3.2. According to Adam Smith what are the factors that improve the terms of trade of a country? (8 Marks)
- 3.3. Give reasons why nations trade (6 Marks)

Question 4 (20 Marks)

- 4.1. Discuss the underlying assumptions of the following trade theorists
- 4.1.1 Adam Smith (5 Marks)
- 4.1.2. David Ricardo (5 Marks)
- 4.2.
- 4.2.1. Outline the critiques of Adam Smith's trade theory (5 Marks)
- 4.2.3 Outline the critiques of David Ricardo's trade theory (5 Marks)

Question 5 (20 Marks)

- 5.1. Distinguish between the following
- 5.1.1 Trade creation and trade diversion (2 Marks)
- 5.1.2. Specific and *ad valorem* Tariff (2 Marks)
- 5.1.3 Import and export biased growth (2 Marks)
- 5.1.4. Custom union and common market (2 Marks)
- 5.1.5. Intra-industrial and inter-industrial trade (2 Marks)
- 5.2. What is the meaning of the following terms
- 5.2.1 Dumping (2 Marks)
- 5.2.2. Rules of origin (2 Marks)
- 5.2.3. Most favoured nation (2 Marks)
- 5.2.4. Free trade area (2 Marks)
- 5.2.5 Trade concession (2 Marks)

END