



ZCAS University

SEC2202 INTERNATIONAL ECONOMICS

TEST

25 OCTOBER 2023

12:30 HRS – 15:30

TIME ALLOWED: THREE HOURS (plus 5 minutes to read through the paper)

INSTRUCTIONS:

1. Section A: this question is **compulsory** and must be attempted.
2. Sections B: Answer Three (3) questions from this section.
3. This question paper carries a total of **100 marks**.
4. Candidates must **not turn this page** until the invigilator tells them to do so.

SECTION A: Question 1 is compulsory and must be attempted.

QUESTION ONE

Zambia and Malawi can both produce cloth and Biscuits. The table below shows the productivity of workers from the two countries.

	Zambia	Malawi
cloth (Yards/hour)	2	4
Biscuits (number of biscuits/hour)	10	3

- a) Which country has an absolute and comparative advantage in the production of biscuits and cloth? Justify your answer. **[5 Marks]**
- b) What does absolute and comparative advantage signify? **[5 Marks]**
- c) Assume that wages in Zambia and Malawi are ZmK500 and MwK300 respectively. **[5 Marks]**
- d) Determine the prices of cloth and biscuits in both countries. **[5 Marks]**
- e) Assume that the exchange rate between Zambia and Malawi is given by $Zmk1=Zmw1$. Determine which product each country will choose to specialize in the production and thus export and which products will be imported. **[5 Marks]**
- f) What would be the benefits associated with free trade for the two countries? **[4 Marks]**
- g) Draw the production possibility frontiers (PPF) (Y axis-cloth, X axis-biscuits) of the two countries assuming that Zambia and Malawi have 2000 and 3000 workers respectively. **[6 Marks]**
- h) Calculate the slope of the PPF for each country and give its significance. **[5 Marks]**

[Total 40 Marks]

SECTION B: Attempt any three questions in this section.

QUESTION TWO

Assume that Zambia is capital abundant and Malawi is labour abundant. The two countries have similar industries- shoe and fishing industries. The shoe industry is capital abundant and the fishing industry is labour abundant.

- a) Explain the country that is better suited for shoe production and fish production. **[7 Marks]**
- b) Depict the autarky position for Zambia and for Malawi respectively using the PPF, relative price line and indifference curve and explain the significance associated with that point. **[7 Marks]**
- c) Explain how the relative price line changes once the two countries engage in trade. Assume that the y-axis depicts the fish sector and the x-axis depicts the shoe sector. **[6 Marks]**
- [Total 20 Marks]**

QUESTION THREE

- a) International trade theory suggests that free trade is welfare enhancing to countries that engage in trade. However, the farmers in Zambia keep lobbying the government to ban the importation of agricultural commodities such as onions, apples and potatoes. Advise the government on the gains and losses associated with international trade and what they need to do to mitigate the situation **[10 Marks]**
- b) Suppose that after your advice in (a), the government decides to levy a tariff instead of an outright ban. Discuss the expected distributional consequences of the tariff on the welfare of consumers and producers. **[10 Marks]**
- [Total 20 Marks]**

QUESTION FOUR

- a) Explain the factors that determine the size of trade countries engage in. **[10 Marks]**
- b) Discuss the impact of technology on the size of trade countries engage in. **[4 Marks]**
- c) Explain what happens to social surplus in the home country when a country engages in import as a result of free trade. Assume perfectly competitive model in the home country. **[6 Marks]**
- [Total 20 Marks]**

QUESTION FIVE

Assume that land is a specific factor in agricultural production and capital is a specific factor in manufacturing in Zambia. Further, assume that labour is perfectly mobile across the two sectors.

- a) Explain the implication of perfect labour mobility on wages earned in manufacturing and agricultural sectors. **[5 Marks]**
- b) Explain what happens to the marginal product of labour when workers are moving into agricultural sector. **[5 Marks]**
- c) What happens to the marginal productivity of land as more workers move in agriculture sector? Justify your answer. **[5 Marks]**
- d) Explain what happens to the relative price of imported and exported goods after countries open up to trade. **[5 Marks]**

[Total 20 Marks]

END OF TEST