



ZCAS University

SEC3172 INTERNATIONAL TRADE AND FINANCE

TEST

23 OCTOBER 2023

16:30 – 19:30 HRS

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 ONE

“The government has agreed to suspend the importation of onion and potatoes into the country until further notice following the complaint raised by the Zambia National Farmers Union over the flooding of the local market with the commodities that can be produced locally.

The Zambia Farmer’s Union (ZNUF) President Jervis Zimba has warned that over K23 million worth of onions in the Country risk going to waste if the government does not address the continued importation of these commodities.”-Lusaka times newspaper, February 22, 2022.

Required:

Based on the information from the Lusaka Times newspaper, analyse the government's decision to suspend onion and potato imports from the perspective of the Specific Factors Model. Explain how this policy may impact different factors of production and various stakeholders in the domestic economy. **[40 Marks]**

[TOTAL 40 MARKS]

SECTION B: Answer Three (3) Questions from this section

QUESTION TWO

The World Trade Organization (WTO) is an international organization that aims to promote and facilitate free trade on a global scale. Its primary goal is to create a rules-based international trading system that reduces barriers to trade and ensures fair and equitable treatment of all member countries.

- a) In the context of the gravity model, why do countries with larger economies tend to trade more with each other than with smaller economies. **[5 Marks]**
- b) How does distance between two trading partners impact international trade according to the gravity model? Discuss the role of transportation costs and technological advancements in mitigating the negative effects of distance on trade. **[5 Marks]**
- c) Discuss the challenges and limitations of using the gravity model to forecast future trade patterns. **[5 Marks]**

- d) Describe the role of cultural, historical, and institutional factors in the gravity model of international trade. How do these non-economic factors influence trade patterns between countries? [5 Marks]

[TOTAL 20 MARKS]

QUESTION THREE

- a) Explain the impact of a tariff on the economic welfare of a small country. In your response, consider the effects on consumers, producers, and the overall economy.

[10 Marks]

- b) Describe the consequences of imposing an import tariff on the economic welfare of a large country. In your response, analyse the effects on various stakeholders, including consumers, domestic producers, and the broader economy. Additionally, consider the potential trade-offs and policy implications that arise when a large country implements import tariffs.

[10 marks]

[TOTAL 20 MARKS]

QUESTION FOUR

Comparing the production capabilities of Zambia and Malawi, Zambia can produce 5,000 computers or 2,000 motorbikes in an hour, while Malawi can produce 1,000 computers or 3,000 motorbikes in the same time frame.

- a) Determine which country possesses an absolute advantage in trade and provide a rationale for your choice. [5 Marks]
- b) Then, apply the insights of Adam Smith's absolute advantage theory to predict the patterns of trade between the two countries. [6 Marks]
- c) Additionally, discuss how the concept of comparative advantage might influence their trade patterns. [9 Marks]

[TOTAL 20 MARKS]

QUESTION FIVE

- a) Explore Zambia's trade patterns in terms of imports and exports and analyze them through the lens of the Heckscher-Ohlin model of international trade. Begin by

- providing an overview of Zambia's major imports and exports, considering both goods and services. **[6 Marks]**
- b) Then, apply the Heckscher-Ohlin model to explain the observed trade patterns. Consider Zambia's factor endowments, such as labor and capital, and how they relate to the country's comparative advantage in specific industries. **[8 Marks]**
- c) Finally, discuss the implications of the Heckscher-Ohlin model for Zambia's trade policy and economic development strategies in light of your analysis. **[6 Marks]**
- [TOTAL 20 MARKS]**

END OF EXAMINATION.