

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION PAPER, MAY 2009

TITLE OF PAPER: INTERNATIONAL ECONOMICS
COURSE CODE: ECON 403
TIME ALLOWED: THREE HOURS
INSTRUCTIONS: 1. ANSWER TWO QUESTIONS FROM EACH SECTION
2. ANSWER FOUR QUESTIONS IN ALL

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SECTION A

QUESTION 1 (25 marks)

- (a) Examine the connection between the demise of the era of mercantilism and Adam Smith's theory of international trade. (12 marks)
- (b) Discuss two types of terms of trade and the major views on the trend for primary commodities and manufactures in international trade. (13 marks)

QUESTION 2 (25 marks)

- (a) Critically examine the "factor price equalization theorem" as major part of the Heckscher-Ohlin trade theory. (17 marks)
- (b) Wassily Leontief found that the exports of the United States were less capital-intensive than her imports. Why was such a finding regarded as a "paradox"? (8 marks)

QUESTION 3 (25 marks)

International movements of factors of production, or factor movements, include labour migration, the transfer of capital through international borrowing and lending, and the subtle international linkages involved in the formation of multinational corporations.

Discuss the following issues within the context of this statement.

- (a) The causes and effects of international labour mobility (13 marks)
- (b) The gaps that foreign direct investment are expected to fill in the economies of developing countries (12 marks)

QUESTION 4 (25 marks)

- (a) What is "second best" within the context of a customs union? (8marks)
- (b) Discuss the various static effects of a customs union? (17 marks)

SECTION B

QUESTION 5

(25 marks)

- (a) Discuss the various types and objectives of tariffs? (10 marks)
- (b) What is an export subsidy? Examine the various effects of an export subsidy in any given economy. (15 marks)

QUESTION 6

(25 marks)

- (a) How is the value of the Lilangeni (the Swazi currency) determined in the foreign exchange market? (8 marks)
- (b) A regime in which the central bank intervenes in the foreign exchange market is called **managed float** (sometimes referred to as *dirty float*). Many countries now manage their currencies under this managed system. Discuss these statements. (17 marks)

QUESTION 7

(25 marks)

- (a) In any given developing country, the foreign sector is regarded as an engine of growth in the national economy. Discuss the extent to which this statement is applicable to Swaziland. (13 marks)
- (b) Examine the effects of the African Growth Opportunity Act (AGOA) on the economy of Swaziland (12 marks)

QUESTION 8

(25 marks)

Critically examine each of the following institutions as sources of international finance and development assistance:

- (a) The International Monetary Fund (IMF) (15 marks)
- (b) The African Development Bank (ADB) (10 marks)