



Strathmore
UNIVERSITY

STRATHMORE BUSINESS SCHOOL

MASTER OF SCIENCE IN DEVELOPMENT FINANCE

END OF SEMESTER EXAMINATION

MDF 8206: INTERNATIONAL TRADE AND NEGOTIATION

Date: Friday 12th April 2024

Time: 3 Hours

Instructions

1. This examination consists of **SIX** questions.
2. Answer **QUESTION ONE** and **ANY OTHER THREE** questions.

Question 1 (Compulsory) (30 Marks)

Manga is a typical developing country that is characterized by a small industrial sector. One of the main industries is the leather and footwear industry. While the raw materials for leather and footwear manufacturing are locally available, the technology of production is a bit outdated and inefficient. In addition, various stages of the production cycle are undertaken manually by low-skilled labour. The cost of manufactured leather products is slightly higher in country x as compared to neighboring countries. Because of existing regional trading agreements, neighboring countries are able to export the leather products to Manga. Manga is also able to export agricultural products to the neighboring countries under the regional trading agreements. In addition, Manga also has preferential trade access to the European market.

- (i) Briefly explain any four benefits that Manga would derive from trading with the neighboring countries **(8 marks)**
- (ii) If Manga can produce 500 leather bags and 300 shoes in one day, while the neighbouring country can produce 400 leather bags and 450 shoes in one day. Does Manga have comparative advantage over the neighbouring country? Explain. **(6 marks)**
- (iii) Given that the cost of leather products in Manga is higher than in the other neighbouring countries, what would be the effect of domestic production of the leather products on the welfare of the citizens and employment? Explain **(4 marks)**
- (iv) Suppose one of Manga's neighbouring countries sells leather products at a low price in order to eliminate competition within the region and eventually to reap monopolist

- profits. Can we say that the neighbouring country is dumping products in Manga? Explain. In case there is dumping, what is the appropriate measure that the country of Manga can take to address the issue? **(4 marks)**
- (v) Suppose that you were to be engaged in negotiating the trade agreements on behalf of Manga. Explain four possible barriers to negotiation that could be encountered during an engagement and how they can be overcome successfully? **(8 marks)**

Question 2 (10 marks)

Following from question one, use the Heckscher and Ohlin theory to explain how the country of Manga could benefit from specialization and trade

Question 3 (10 marks)

- (i) Differentiate between absolute and comparative advantage. **(4 marks)**
- (ii) Using specific examples, briefly discuss the following principles of the World Trading Organization system.
- a. Most Favoured Nation **(3 marks)**
- b. Principle of Reciprocity **(3 marks)**

Question 4 (10 marks)

You are leading a team to negotiation the availing of development funds and have been hired by the Mexican Government to engage with the Government of Russian to negotiate this bilateral agreement.

- a) Can culture influence these negotiations? If so, how? Explain five cultural elements that may impact on the successful implementation of this bilateral agreement. **(5 marks)**
- b) Prepare five key elements of the negotiation styles of Mexicans. **(5 marks)**

Question 5 (10 marks)

You are preparing for a negotiation with trade union representatives to discuss the Collective Bargaining Agreement (CBA) review for the workers. Explain the various process dynamics of this negotiation?

Question 6 (10 marks)

Discuss any five challenges that a country can encounter as a member of regional integration schemes.