INSTRUCTIONS TO CANDIDATES:

1. Please read all instructions carefully before answering the questions.

2. This paper consists of 4 pages and 2 compulsory sections. Please ensure that you have all of them.

3. Section A consists of five questions and students should answer ALL questions.

4. Section B consists of four questions and students should answer any THREE questions.

5. Please use separate answer books for EACH SECTION.
SECTION A

- You must answer All questions in this section.
- For each question, state whether you Agree or Disagree AND you should Support your answer by writing a brief explanation. Think carefully before answering each question.
- Each question in this section is worth 5 marks.

1. There are no basic requirements that a country needs to fulfill to become a member of the European Union.

2. Regional integration arrangements (RIAs) in Africa reflect a tendency to adopt the linear model of integration.

3. Forming a common market or an economic union requires more than the reduction of tariffs and quotas.

4. Trade blocs are consistent with the most favored nation (MFN) principle.

5. East Asian integration has been largely market driven.
SECTION B

- This section contains a choice of questions. You must answer any **Three** of the following four questions.
- Read all the questions carefully.
- The questions carry equal weight.

QUESTION 1

A popular statistical model of trade describes the level of international trade between any two countries as being a function of the relative size of the countries and the geographic distance between the countries. Tang and Ndakaza (2012) study applied this popular statistical model to assess the impact of FTAs (EU, SADC and BRIC) on trading patterns for South Africa. The following Table 1 shows an extract of their estimated results for exports from South Africa to 100 countries.

Table 1: Cross Section Estimates for Exports (2000 - 2010)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDPs</th>
<th>Distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.48</td>
<td>-3.15</td>
</tr>
<tr>
<td>2005</td>
<td>1.37</td>
<td>-2.81</td>
</tr>
<tr>
<td>2010</td>
<td>1.24</td>
<td>-2.53</td>
</tr>
</tbody>
</table>

**Note:** all estimated coefficients are significant at a 1 per cent level or higher.

Dependent variable = \( \ln X \) (millions US dollars)

Independent variables = \( \ln GDP \) (millions US dollars) + \( \ln D \) (1000 kms)

where \( \log Tradeij = b1 + b2 \log Y_iY_j + b3 \log D_{ij} + \ldots \ldots \)

1.1 Identify and give a description of this popular statistical model for trade.
1.2 What do the estimated coefficients on relative GDPs and distance each indicate? (tip: relationship and significance to trade as well as any interesting and surprising results).
1.3 Can this model make an important contribution to the regionalism debate? Why or why not?
1.4 Which level of economic integration is aspired if BRICS remove all tariffs between members and adopt a common external trade policy toward non-members? Do you think African countries should support this possible initiative? Justify your answer.
QUESTION 2

On January 1, 1999, eleven European countries took a historical step of adopting a single currency – the Euro. Africa is also fixing its sights on creating a common currency.

2.1 Is the Eurozone an Optimal Currency Area (OCA)? Justify your answer.

2.2 What lessons does the European experience carry for potential currency blocs in Africa?

QUESTION 3

In January 2012, African leaders endorsed the proposal to set up a Continental Free Trade Area (CFTA) by 2017. The CFTA is set to build on the Tripartite FTA of the EAC, COMESA and SADC.

3.1 All member states should experience substantial economic gains from the CFTA. Do you agree or disagree? Justify your answer.

3.2 Identify and discuss the critical issues for a meaningful CFTA.

QUESTION 4

The issue of regionalism is often debated and contrasted with the global approach of multilateralism.

4.1 Are regional trading arrangements a complement or substitute to the multilateral trading system?

4.2 Are the increasing South-South regional trading arrangements beneficial or dangerous liaisons for developing countries?