KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2018/2019

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS

EAE 200: ECONOMICS OF GLOBAL BUSINESS

DATE: TUESDAY, 26TH MARCH, 2019 **TIME: 4.30 P.M. - 6.30 P.M.**

INSTRUCTIONS:-

1. *Answer question one and any other two*
2. *Question one is compulsory and carries 30 marks*
3. *All other questions carry 20 marks each*

QUESTION ONE (*COMPULSORY*) (30 Marks)

a) Distinguish between the following terms as used in economics of global business:-

i. Globalization of market and Globalization of production. [2 marks]

ii. Foreign direct investment (FDI) and multinational corporation (MNCs). [2 marks]

iii. World trade organization (WTO) and International Monetary Fund (IMF). [2 marks]

iv. Globalization and Financial crises. [2 marks]

b) The overall attractiveness of a country as a market and/or investment for foreign direct investment by multinational corporations depends on balancing the likely long-term benefits of doing business in that country against the likely benefits, costs and risks. Briefly explain citing relevant country experience the determinants of such benefits, costs, and risks. [12 marks]

c) A normal form of a simultaneous-move game is presented below:-

	Player B		
Player A	Strategy	Left	Right
	Up	10, 5	15, 0
	Down	6, 8	10, 2

i. Identify dominant and dominated strategies for the two players if any? [4 marks]

ii. What is the secure strategy for player B in this game? [2 marks]

iii. In the game presented above, what are the Nash equilibrium strategies for players A and B? [4 marks]

QUESTION TWO (20 Marks)

a) Discuss the ways through which a country can cope with financial crises. [10 marks]

b) A lot more has to be done in order for developing countries to gain from the current wave of globalization. Clearly discuss what the international community and the domestic country like Kenya should do in order to benefit from globalization and realize economic growth and development. [10 marks]

QUESTION THREE (20 Marks)

a. i) In recent years, a substantial share of the domestic capital formation in Kenya has been financed by foreign investors. Is this dependence on foreign capital dangerous? Explain. [4 marks]

ii) What would happen if the inflow of foreign capital came to a halt? [4 marks]

a) Discuss THREE potential benefits of regional economic integration. [6 marks]

b) Discuss how global and regional efforts to promote trade and investment have advanced globalization. [6 marks]

QUESTION FOUR (20 Marks)

a) Clearly discuss any four negative effects of globalization. [4 marks]

b) Outline how nations undergoing economic integration can raise living standard for their people. [6 marks]

c) Using a well labeled partial equilibrium diagram, illustrate and discuss the welfare effect of a trade creating customs union. [10 marks]

QUESTION FIVE (20 marks)

Suppose two multinational corporations (MNC), Alpha and Omega compete against one another for customers in the global market. The managers of the two multinationals know that their products will be out-of-date at the end of this year and must simultaneously determine whether or not to lower the current prices. In this industry, decreasing the price does not increase total industry demand but instead induces consumers to switch among the products of different multinational corporations. If the multinationals decrease the prices, the two campaigns will simply offset each other, and the two firms will each earn Ksh40 million in profits. If neither corporation lowers the price, then, each will earn Ksh100 million in profits. However, if one corporation lowers the price and the other one does not, the firm that lowers the price will earn Ksh200 million and the firm that does not lower the price will earn Ksh10million in profits.

a) Prepare the payoff matrix of the two firms. [5 marks]

b) Identify dominant and dominated strategies for the two firms if any. [4 marks]

c) Identify the unique Nash equilibrium. [2 marks]

d) Identify the equilibrium for the two firms using:

   i) The Matrix method [5 marks]

   ii) The backward induction [4 marks]