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KENYATTA UNIVERSITY

2019/2020 ACADEMIC YEAR

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS AND FINANCE

DIGITAL SCHOOL (DSVOL)

EAE 308: INTERNATIONAL ECONOMICS II

INSTRUCTION: Answer question ONE any other TWO questions

QUESTION ONE **(30 MARKS)**

a) Explain any four roles of money in international trade and finance. (8 marks)

b) With the aid of a well labelled diagram and relevant example, illustrate the welfare effects of economic integration in small country. (8 marks)

c) If a Kenyan importer orders US$ 100,000 worth of Dell computers from the USA and payment is to be effected in 100 days' time. Explain any three options the importer has at his disposal, if he suspects that the dollar price in Ksh may rise in the 100-days waiting period. (6 marks)

d) Discuss with relevant examples four reasons why international trade may be harmful to a country like Kenya. (8 Marks)

QUESTION TWO **(20 MARKS)**

a) "The IMF acts like a global loan shark, exerting enormous leverage over the economies of more than 60 countries. These countries have to follow the IMF's policies to get loans, international assistance, and even debt relief. Thus, the IMF decides how much debtor countries can spend on education, health care, and environmental protection. The IMF is therefore, one of the most powerful institutions on Earth yet few know how it works." Discuss (10 marks)

Not clear what is being discussed – rephrase

b) Using the Kenya Shilling as a point of reference, explain FIVE factors that influence a country's foreign exchange rates. (10 marks)

QUESTION THREE **(20 MARKS)**

a) Write short notes on the following concepts used in international finance.

   i. Dutch disease phenomenon (2 marks)

   ii. Purchasing Power Parity (2 marks)

   iii. Dual exchange rate system (2 marks)

   iv. Foreign exchange reserve (2 marks)

   v. Marshall – Lerner condition (2 marks)

b) The government of Kenya has recently taken a back seat and even said it intends to hedge its activities against the strong dollar, meaning that the State will not be doing much to shield consumers from the high import prices. Explain any five effects of this. (10 marks)

QUESTION FOUR **(20 MARKS)**

a) When actual data is collected by the Kenya National Bureau of Statistics for use in calculating the balance of payment, many transactions are either missed or go unreported. Using relevant examples, explain and account for the reasons in these statistical discrepancy. (10 marks)

b) The European Union is considered to have undergone a complete process of economic integration. Explain the steps/stages involved in achieving this. (10 marks)

QUESTION FIVE **(20 MARKS)**

a) The price of foreign exchange is only one of the several determinants of quantity demanded of foreign exchange in the foreign exchange market. Discuss using examples. (8 marks)

b) Describe how inflation can be exported from one economy to another elaborating on the necessary conditions for the occurrence. (6 Marks)

c) Given the following equations:

$$C = 100 + 0.75Y$$
$$S = -100 + 0.25Y$$
$$M = 40 + 0.15Y$$
$$\bar{I} = 560$$
$$X = 350$$

Required: i) Determine the equilibrium national income. (4 marks)

ii) Comment on the balance of payment. (2 marks)

Not clear?