MACHAKOS UNIVERSITY

University Examinations for 2017/2018

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 308: INTERNATIONAL ECONOMICS II

DATE: 5/12/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Write short notes on the following

i) Soft money (2 marks)

ii) Devaluation (2 marks)

iii) Customs union (2 marks)

iv) Gold standard (2 marks)

b) You are provided with the following information concerning a given economy.

Money Market / Monetory Sector

Money supply (Ms) = 2000

Transaction demand for money (D_T) = 0.2Y

Precautionary & Speculative demand for money (Dps) = 10-4r

(Real Sector) Commodity Market

$Y = C + I$ Where $C = 200 + 0.6Y$

And $I = 4000 - 4.2r$

Required:

i) Obtain the IS Curve (2 marks)

ii) Obtain the LM Curve (2 marks)

iii) Determine the equilibrium level of income & interest rate (2 marks)

c) Explain any four disadvantages of adopting a managed float regime (8 marks)

d) Discuss any four functions of the international monetary Fund (IMF) (8 marks)

QUESTION TWO (20 MARKS)

a) Define and Explain the functions of the following terms as used in the foreign Exchange market

i) Clearing

ii) Hedging

iii) Speculation (9 marks)

b) Using an appropriate diagram illustrate and explain the welfare effects of Economic intergration in a small country (8 marks)

c) Hight any three functions of the World trade organization (WTO) (3 marks)

QUESTION THREE (20 MARKS)

a) The international Monetary Fund (IMF) is a key Institution that was set up to facilitate the smooth function of the new international monetary system established by the 1944 Bretton woods Agreement. Discuss any three functions of the IMF (6 marks)

b) International Economic Transactions of any country involve payments and receipts which are summarized in a set of accounts known as balance of payments (BOP). Briefly discuss the three main accounts in the components of B.O.P (9 marks)

c) How was the Gold standard international monetary system launched. How did it operate from 1870s upto its collapse in the 1930s. (5 marks)

QUESTION FOUR (20 MARKS)

a) Briefly explain the following types of Exchange rates.

i) Floating / Flexible Exchange rate (3 marks)

ii) Fixed / Pegged Exchange (3 marks)

iii) Managed Flexibility (3 marks)

b) How does a country become a member of IMF and how does it benefit from this membership (6 marks)

c) If in 2015, Kenya recorded a current account deficit of over US ₤ 10 billion. Could expanding exports by deprecating the Kenya shilling from Ksh 83 / US ₤ to ksh 107/US ₤ be sufficient to eliminate the trade deficit ? use the open economy multiplier to explain your answer. (5 marks)

QUESTION FIVE (20 MARKS)

a) What is special Drawing Rights (SDR) facility? How do the member countries of IMF use the SDR? (4 marks)

b) What are the four main guidelines used to establish a customs Union (4 marks)

c) Distinguish between the following terms

i) Trade Creation (2 marks)

ii) Trade diversion (2 marks)

d) Using an appropriate diagram explain why the BP curve slopes upwards (5 marks)