MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER XAMINATION FOR

BACHELOR ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF ARTS

EAE 308: INTERNATIONAL ECONOMICS II

DATE: 25/4/2019 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

- **(i)** **Answer question one (Compulsory) and any other two questions**
- **(ii)** **Do not write on the question paper**
- **(iii)** **Show your working clearly**

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Explain the following concepts

(i) International Finance (2 marks)

(ii) Balance of Payments (2 marks)

(iii) Frictionless Price (2 marks)

(iv) International Moneys (2 marks)

b) The fundamental equations in an economy are given as:

Consumption function (C) = 260 + 0.8 Yd,

Investment function ($\bar{I}$) = 320

Tax = 300

Government Expenditure (G) = 300

Exports (X) = 300 – 0.05Y

Imports (M) = 0

You are required to ascertain the following:

i) Find the equilibrium level of income (4 marks)

ii) Find the net exports at equilibrium level of income (2 marks)

iii) Find the equilibrium level of income and the net exports when there is an increase in investment from 320 to 340 (2 marks)

iv) Find the equilibrium level of income and the net exports when the net export function becomes 280 – 0.05Y (2 marks)

c) The equilibrium in the real, monetary and foreign sectors is given by the IS, LM, and BP curves.

i) Define IS, LM, and BP curves (3 marks)

ii) Derive IS, LM and BP curves and show the simultaneous equilibrium in the real and monetary and foreign sectors. (7 marks)

QUESTION TWO (20 MARKS)

a) Explain the concept "Balance of Payment Deficit" (2 marks)

b) Explain how balance of payment Deficit is corrected under flexible exchange rate regime.

(8 marks)

b) Explain stages of Economic Integration (10 marks)

QUESTION THREE (20 MARKS)

a) Explain four main functions of International Finance (8 marks)

b) With aid of a well labeled diagram explain decrease in autonomous exports of the simultaneous equilibrium in the real and monetary sectors of the economy (10 marks)

c) Explain the Marshal Lerner Condition (2 marks)

QUESTION FOUR (20 MARKS)

a) Explain welfare effects of economic integration for a small country (10 marks)

b) Explain how IMF, World Bank and World Trade Organisation were founded, for what purpose and how they operate (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain how the gold standard system work in practice and state problems associated with the Bretton woods system (10 marks)

b) Explain five differences between a forward and futures contract (10 marks)