



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 308: INTERNATIONAL ECONOMICS II

DATE: 26/9/2019

TIME: 8:30 – 10:30 AM

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) Purchasing Power Parity (2 marks)
 - iii) Nominal price (2 marks)
 - (iv) International Moneys (2 marks)
- b) The fundamental equations in an economy are given as:
- | | |
|------------------------|------------------|
| Consumption (C) | $= 10 + .8(Y-T)$ |
| Investment (I) | $= 23$ |
| Government Expenditure | $= 10$ |
| Tax | $= 10$ |
| Imports | $= 0.3Y$ |
| Exports | $= 15$ |

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 23 to 50 (2 marks)
 - iv) Find the equilibrium level of income and the net exports when the net export function becomes $50 - 0.3Y$ (3 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, monetary and foreign sectors (8 marks)

QUESTION TWO (20 MARKS)

- a) Explain the concept “The Exchange Rate Regime” (2 marks)
- b) Explain four exchange rate regimes (8 marks)
- c) Explain stages of Economic Integration (10 marks)

QUESTION THREE (20 MARKS)

- a) Explain the link between foreign exchange markets and financial markets (8 marks)
- b) With aid of a well labeled diagram explain increase in autonomous imports 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 Balance of Payment Components (5 marks)
- c) Explain how World Bank was formed and its roles (5 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 stages of Economic Integration (10 marks)