



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF ECONOMICS

SECOND YEAR FIRST SEMESTER EXAMINATION FOR

MASTER OF ECONOMICS

EAE 806: INTERNATIONAL ECONOMICS

DATE:

TIME:

INSTRUCTIONS: Answer Question ONE and any other Two questions

QUESTION ONE (COMPULSORY 30 MARKS)

- a) Clearly distinguish between the following pairs of concepts.
- (i) Absolute advantage and comparative advantage (2 marks)
 - (ii) Balance of trade and balance of payment (2 marks)
 - (iii) Arbitrage and hedging (2 marks)
- b) With help of graphical illustrations explain the impact of fiscal policy under various capital mobility assumptions (7 marks)
- c) Explain five reasons why foreign exchange is demanded and supplied in foreign exchange markets (5 marks)
- d) Explain five non-tariff barriers that hinder free trade among developing countries (7 marks)
- e) Briefly explain five types of economic integration (5 marks)

QUESTION TWO

- a) Explain effects of tariffs. Use graphical illustrations where applicable (5 marks)
- b) A Kenyan is planning to invest in a foreign country. Explain the types of risks he is likely to face and the strategies he can adopt to mitigate the risks (7 marks)

QUESTION THREE

- a) Many developing countries suffer from balance of payments deficit. Explain five corrective measures they can adopt. (5 marks)
- b) Importation of cheap second-hand clothes has dealt a major blow to the textile industry in Kenya.
 - i) State and explain briefly five tools that the government can use to protect this industry. (5 marks)
 - ii) With the help of diagrams explain the effects of a duty levied on imported clothes. (3 marks)
 - iii) Highlight five benefits of allowing free trade of second-hand clothes as opposed to protectionism. (4 marks)

QUESTION FOUR

- a) Compare and contrast flexible and fixed exchange rates regimes. (3 marks)
- b) State and explain with help of appropriate diagrams Heckscher-Ohlin Theory. (5 marks)
- c) Critically examine the applicability of Heckscher-Ohlin Theory in trade between Kenya and US. (4 marks)

QUESTION FIVE

The East African Community (EAC) was formed to enhance economic and political integration among member states. It aspires to form an economic union and become a political federation with a unitary government in future. However, EAC has faced some challenges that hinder the realization of its objectives.

- a) Briefly explain 5 benefits that have accrued to the member states since the formation of EAC. (4 marks)
- b) Highlights 5 problems that have faced East Africa Community. (5 marks)
- c) Suggest 3 ways that would enhance economic integration of EAC member states. (3 marks)