



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS IN ECONOMICS**

**COURSE CODE: ECO 415**

**COURSE TITLE: INTERNATIONAL ECONOMICS II**

**DATE: 17<sup>TH</sup> APRIL 2018**

**TIME: 08:30 – 10:30AM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of **TWO** printed pages. Please turn over.*

### QUESTION ONE

- a) To what extent has the knowledge of international economics been of value to you as a student? **(5marks)**
- b) Explain the role of “specie” in the growth and development of international trade **(6marks)**
- c) Explain the six types of money used in trade transactions **(6marks)**
- d) How is the law of one price used to explain the concept of purchasing power parity? **(8marks)**

### QUESTION TWO

Define and explain the functions of the following terms in the foreign exchange market:

- i. Clearing **(5marks)**
- ii. Hedging **(5marks)**
- iii. Speculation **(5marks)**

### QUESTION THREE

- a) “If the quantity of money in circulation is increased without a comparable increase in the supply of goods, prices tend to react upwards.” Discuss in relation to the concept of nominal prices and real price. **(8marks)**
- b) Use a diagram to explain why the Balance of Payment curve slopes upwards **(7marks)**

### QUESTION FOUR

- a) Discuss arguments against Flexible Exchange Rate Regime **(7marks)**
- b) Use the supply and demand model of the foreign exchange market to analyze the effects of a rise in the price level of the USA relative to that of Kenya:
  - i. Under a fixed exchange rate regime **(4marks)**
  - ii. Under a flexible exchange rate regime. **(4marks)**

### QUESTION FIVE

- a) Explain the components of balance of payment **(7marks)**
- b) Kenya has never recorded a positive balance of trade since independence in 1963. Explain why this is the case and how it has managed to fulfill its international trade obligations. **(8marks)**

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