



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY
EXAMINATIONS
2018/2019 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: 25TH APRIL, 2019
1630HRS**

TIME: 1430 -

INSTRUCTIONS TO CANDIDATES

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

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

Question One

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 this statement in relation to the concept of nominal prices and real price

(8 marks)

b) Discuss the arguments for Flexible Exchange Rate Regime
(7 marks)

c) Explain the functions of the World Trade Organization (WTO)
(10

marks)

Question Two

a) Explain the functions of foreign exchange market

(7marks)

b) The **law of one price** is very relevant to trade transactions involving raw materials and financial assets, such as treasury bills and bonds". Discuss this statement showing why it is less relevant to trade in manufactured goods.

(8marks)

Question three

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

i. Clearing;

(5marks)

ii. hedging;

(5marks)

iii. speculation

(5marks)

Question Four

a) "Whenever covered interest parity does not hold, there are opportunities to make **risk-less** profit through interest arbitrage". Discuss this statement in relation to the activities of arbitrageurs in bringing the foreign exchange and financial markets into equilibrium

(8marks)

b) Just like in other markets, the price of foreign exchange is only one of the several determinants of quantity demanded of foreign exchange in the foreign exchange market. Explain

other determinants of demand of foreign exchange.
(7 marks)

Question Five

a) 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.

(8 marks)

b) Discuss why the Bretton Woods system of exchange regime collapsed.

(7 marks)

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