



# MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

EAE 308: INTERNATIONAL ECONOMICS II

DATE: 22/1/2021

TIME: 8.30-10.30 AM

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## 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 (2marks)
- 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)