

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 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: 12TH MAY 2017 TIME: 11:00 – 13:00HRS**

**INSTRUCTIONS TO CANDIDATES**

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

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

**QUESTION ONE**

1. 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)**
2. Explain the THREE main functions of the spot Market for foreign exchange **(6marks)**
3. Discuss the development of money as a medium of exchange **(6marks)**
4. Explain the role of demand for and supply of precious metals (specie) in determining the price of money **( 5marks)**

**QUESTION TWO**

1. International trade can be distinguished from domestic trade by two basic characteristics. Explain these characteristics **(5marks)**
2. Discuss the role of exchange rate in determining nature and direction of international trade **(5marks)**
3. Explain the law of one price **(5marks)**

**QUESTION THREE**

1. Explain the participants in the Foreign Exchange market **(5marks)**
2. Discuss the functions of Foreign Exchange Market **(6marks)**
3. Explain the difference between hedging and speculating **(4marks)**

**QUESTION FOUR**

1. Explain the link between foreign exchange markets and financial markets **(7marks)**
2. Whenever covered interest parity does not hold, there are opportunities of making riskless profit through interest arbitrage. Discuss **(8marks)**

**QUESTION FIVE**

1. Explain how a government can maintain exchange rate outside equilibrium levels under fixed exchange. **(7marks)**
2. Use the supply and demand model of the foreign exchange market to analyse the effects of a rise in the price level of the USA relative to that of Kenya under a flexible exchange rate regime **(8marks)**

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