



MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya

Tel: +254(0) 799 529 958, +254(0) 799 529 959, + 254 (0) 712 524 293,

Website: info@must.ac.ke Email: info@must.ac.ke

University Examinations 2023/2024

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
SCIENCE IN ECONOMICS

BEC 3452: INTERNATIONAL ECONOMICS II

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (30 MARKS)

a) A small country had the following transactions in a year.

- i. Exported goods and services worth \$ 1500 and paid in 3 months' time
- ii. The government of that country gives \$250 as a grant to a neighbouring country facing floods
- iii. Some citizens visited United Kingdom and spent \$4500 on food and other hotel services
- iv. A citizen purchases a foreign stock worth \$900 and pays for it by increasing foreign bank balances in that country

v) A foreign investor purchases treasury bills worth \$600 and pays by drawing from his bank balances in this country.

Required:

- a) Construct separate accounts for each of these transactions. (7marks)
- b) Construct the Balance of Payment for this country that year (5 marks)

(b) Define the following terms

- (i) International finance (2marks)
- (ii) Hedging (2marks)
- (iii) Forward (2marks)
- (iv) Futures (2marks)
- (v) Dutch disease (2marks)

c) Explain law of one price and show how it is related to the concept of PPP. (8marks)

QUESTION TWO (20 MARKS)

- a) Explain the determinants of exchange rate using the monetary approach. (6marks)
- b) Explain the effect of both devaluation and evaluation of a domestic currency to the domestic prices. (6 marks)
- c) Using diagram show that determination of whether a foreign exchange system is stable or unstable is crucial. (8marks)

QUESTION THREE (20 MARKS)

- a) Using IS-LM-BP model, explain how a developing country can use monetary policy under flexible exchange rate regime to eliminate domestic unemployment (10marks)
- b) Give a background to Gresham's Law (10marks)

QUESTION FOUR (20 MARKS)

- a) Explain the Marshal-Learner condition (5marks)
- b) Graphically explain the J Curve effect (5marks)
- c) By use of a diagram, explain how monetary policy in an economy with perfect capital flows and flexible exchange rates can help achieve full employment. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Explain objectives and challenges facing the following organizations UNCTAD, GATT and WTO, with regard to international trade and position of developing countries like Kenya (20 marks)