



# UNIVERSITY OF EMBU

2021/2022 ACADEMIC YEAR

FIRST SEMESTER EXAMINATIONS

FIRST SEMESTER 2021/2022 ACADEMIC YEAR EXAMINATIONS

BAE 307: INTERNATIONAL ECONOMICS

**DATE: 29 NOVEMBER, 2021**

**TIME: 11.00- 1.00 PM**

**INSTRUCTIONS:**

**Answer Question ONE and ANY Other TWO Questions.**

**QUESTION ONE (30 MARKS)**

- a) Differentiate between the following concepts
  - i) A spot rate and a forward rate in a foreign exchange market (2 marks)
  - ii) A specific tariff and an ad valorem tariff (2 marks)
  - iii) Individual indifference curve and community indifference curve (2 marks)
  - iv) Consumer surplus and producer surplus (2 marks)
  - v) Production subsidy and export subsidy (2 marks)
  - vi) Preferential trade area and free trade area (2 marks)
- b) Explain three transactions featured in the current account balance of the balance of payments. (3 marks)
- c) Taking two examples, explain whether mercantilist beliefs on trade apply in Kenya today. (4 marks)
- d) Use the concept of opportunity cost to show which country has a comparative advantage in the production of which good.



ISO 27001:2013 Certified

*Knowledge Transforms*



ISO 9001:2015 Certified

X	Y
<b>1 unit of X</b>	<b>1 unit of Y</b>
<b>A: uses 80 units of labour</b>	<b>90 units of labour</b>
<b>B: uses 120 units of labour</b>	<b>100 units of labour</b>

(5 marks)

- e) Explain four weaknesses of the International Monetary Fund (IMF). (6 marks)

**QUESTION TWO (20 MARKS)**

- a) Graphically demonstrate the consumption and production gains from trade once a country specializes according to the Ricardian model. (7 marks)
- b) Explain three important assumptions in the analysis of the Ricardian model and the neoclassical theory. (6 marks)
- c) Explain the role of factor abundance in determining comparative advantage. (7 marks)

**QUESTION THREE (20 MARKS)**

- a) Despite the widespread acceptance of free trade, countries still use various instruments to interfere with free trade. With relevant examples, explain five non-tariff barriers to trade that are applied in the East African Community. (10 marks)
- b) Graphically demonstrate the partial equilibrium welfare effects of a tariff. (10 marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain the concept balance of payments? (2 marks)
- b) Explain at least four components of the official settlements account of the balance of payments. (6 marks)
- c) Explain three functions of the World Trade Organization (WTO) in international trade? (6 marks)
- d) Explain three functions of the World Bank. (6 Marks)



**QUESTION FIVE (20 MARKS)**

- a) Suppose Oduor wishes to invest KES 20 million in short term securities, and the following business information is available to him;

The spot rate between the Kenya Shilling and the US dollar is  $e = \text{KES}/\$ = \text{KES}105$ , the 91-days interest rate on CBK Treasury bills is 9% p.a. and the 91-days interest rate on US Treasury bills is 12% p.a.

Explain the options available for Oduor? (10 marks)

- b) Graphically demonstrate the welfare effects of economic integration in a small economy like Kenya. (10 Marks)

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