THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Ext 1022/23/25
Fax: 254-20-891084
email:det@cuea.edu
exams@cuea..edu
directorofexams@cuea.edu

MAIN EXAMINATION

FACULTY OF ARTS & SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS

SEMESTER: SEPTEMBER/DECEMBER 2020
REGULAR PROGRAMME
UNIT CODE: ECN 316
TITLE: INTERNATIONAL ECONOMICS

Date: DECEMBER 2020	Duration: 2 HOURS
INSTRUCTIONS: Answer Question ONE and any other TWO Questions	

Q1.

a. Briefly examine the concept of money and its use in international trade. (6 marks)
b. Examine the Keynesian autonomous spending multiplier. (6 marks)
c. Examine the following three components of balance of payments:
   i) The current account.t (5 marks)
   ii) The capital account. (5 marks)
   iii) The official settlement account. (4 marks)
d. Highlight four main reasons why residents of any country demand foreign currency in the foreign exchange market. (4 marks)

Q2.

a. Briefly discuss the Gresham's law "Bad money drives out good money. (5 marks)
b. Discuss the simple Keynesian approach of national income equilibrium in an open market. (15 marks)

Q3.

a. Kenya has never recorded a positive balance of trade since its independence, explain why this is so and how it has managed to fulfill its international obligations. (12 marks)
b. Explain and illustrate the effects of changes in exchange rate on the quantity demanded of foreign currency. (8 marks)

Q4.

a) Differentiate between real prices and nominal prices in one country. (6 marks)
b) Discuss the following assertion in relation to the concept of real price and nominal price: “If the quantity of money in circulation is increased without a comparable increase in the supply of goods, prices tend to react upwards.”
(14 marks)

Q5.

a) Discuss the concepts of “covered interest arbitrage” and “uncovered interest arbitrage.” (10 marks)
b) “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. (10 marks)

END