

LAIKIPIA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

**2<sup>ND</sup> SEMESTER 2023/2024 ACADEMIC YEAR**

**SECOND YEAR EXAMINATION FOR BACHELOR  
OF SCIENCE ECONOMICS AND STATISTICS AND  
BACHELOR OF ARTS IN ECONOMICS AND  
SOCIOLOGY**

**ECON 439: INTERNATIONAL ECONOMICS II**

***STREAM: R***

***TIME: 2 HRS***

***DAY: THURSDAY (8.30-10.30AM)    DATE: 11/4/24***

**THIS QUESTION PAPER CONSISTS OF THREE (3 PAGES)**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**

**INSTRUCTIONS: Answer Question ONE and any other TWO questions**

**QUESTION ONE (30 MARKS)**

- a. Outline the differences between international trade and international finance (6 Marks)
- b. Explain the classifications and components of a balance of payment accounts. How is balancing obtained? (10 Marks)
- c. Explain why agriculture is not a good development tool for the promotion of growth through international trade. (10 Marks)
- d. Why do countries operate different exchange rates? What causes the diverse demand for foreign currencies in developing countries? (4 Marks)

**QUESTION TWO (20 MARKS)**

- a. Using a diagram clearly shows the welfare effects of trade on imports for a country that is also producing but not in sufficient quantities (10Marks)
- b. Briefly explain how favourable terms of trade can be obtained from real-world data (5 Marks)
- c. If two countries have the same factor endowments but have different tastes, can they benefit from trade? Explain your answer with the help of a diagram illustration (5 Marks)

**QUESTION THREE (20 MARKS)**

- a. Discuss the role of EAC in objectives and achievements (6 Marks)
- b. Giving examples, explain the arguments for the imposition of trade barriers (5 Marks)
- c. Distinguish between import replacing growth and export expansion growth (4 Marks)
- d. Distinguish between trade creation and trade diversion using a diagram (5 Marks)

**QUESTION FOUR (20 MARKS)**

- a. Whenever covered interest parity does not hold, there are opportunities to make a **risk-less** profit through interest arbitrage” Discuss this statement concerning the activities of arbitrageurs in bringing the foreign exchange and financial markets into equilibrium. (6 Marks)
- b. Distinguish between devaluation of currency and depreciation of a currency (4 Marks)



- c. “To expand international trade is an unavoidable option for Kenya’s economic development.” Discuss this statement giving reference to the nature of Kenya’s Balance of Payment position. **(10 Marks)**

**QUESTION FIVE (20 MARKS)**

- a. Explain the types of exchange rate systems **(6 Marks)**
- b. Using an example and a diagram clearly show the effects of a tariff on consumers and producers. **(5 Marks)**
- c. Many developing countries like Kenya follow an export-oriented growth strategy. What are some of the limitations of this strategy **(9 Marks)**

