

UNIVERSITY OF SWAZILAND
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION 2017/18

TITLE OF PAPER : INTERNATIONAL ECONOMICS AND TRADE
COURSE CODE : ACF 605
TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS :

- 1. QUESTION ONE (1) IN SECTION A IS COMPULSORY AND IT CARRIES 40 MARKS**
- 2. ANSWER ANY OTHER TWO (2) QUESTIONS IN SECTION B. ALL QUESTIONS IN SECTION B CARRY 30 MARKS EACH.**
- 3. ONLY SCIENTIFIC NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.**
- 4. ROUND UP YOUR FINAL ANSWERS TO TWO (2) DECIMAL PLACES.**

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR

SECTION A

QUESTION 1 (COMPULSORY)

[40 Marks]

- a) With examples, state what is the basis for trade in the following models:
- i. Absolute advantage [5 Marks]
 - ii. Comparative Advantage [5 Marks]
- b) Non-tariff barriers (NTBs) come in different forms, state and explain how two (2) NTBs of your choice are effected in order to restrict trade volume. [6 Marks]
- c) Differentiate between the following books of the balance of payments (BOP); current account and financial account. [5 Marks]
- d) Distinguish between an appreciation and a depreciation of a currency. [6 Marks]
- e) Explain how each of the following transactions generates two entries, a credit and a debit, in Swaziland's Balance of Payments accounts, at a spot rate of $E18/£1$. Also describe which category of the BoP account will be used to record them:
- i. A Swazi citizen acquires $£1,000$ in foreign currency to enable her to purchase some goods from the United Kingdom (UK). [5 Marks]
 - ii. The Swazi individual purchases a Samsung smartphone from the UK worth $£550$. [5 Marks]
- f) If the Naira-Lilangeni exchange rate is $NGN25/£1$ and the Lilangeni-Pound Sterling exchange rate is $E19/£1$, what would be the Naira-Pound Sterling exchange rate? [3 Marks]

SECTION B

Answer any Two (2) Questions from this Section

QUESTION 2

[30 Marks]

- a) “When a small country imposes a tariff for a certain good it imports, it cannot affect the foreign price of the good”. Is this statement true or false? Justify your answer. [10 Marks]
- b) Formation of a customs union can either be trade creating or trade diverting. With the support of graphs, analyse the statement. [20 Marks]

QUESTION 3

[30 Marks]

- a) State and explain the equation for the interest parity condition. [7 Marks]
- b) Why should Interest Rate Parity hold for the exchange rate market to be in equilibrium? [8 Marks]
- c) Using an appropriate graph explain fully the channel of how a decrease in the interest rate in Nigeria (foreign country) affects the exchange rate with its major trading partner Swaziland (home country). [15 marks]

QUESTION 4

[30 Marks]

- a) Briefly state the **Law of One Price**. [5 Marks]
- b) Distinguish between **Absolute Purchasing Power Parity** and **Relative Purchasing Power Parity**. (Make sure to state the mathematical equations) [10 Marks]
- c) The **Big-Mac Index** is often used to measure purchasing power parity. State how this is done, and further state the pros and cons of using such a measure to determine the exchange rate. [15 Marks]