



# UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, AUGUST 2020

INSTITUTE OF POST-GRADUATE STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

COURSE CODE: ACF 608

TITLE OF PAPER: INTERNATIONAL ECONOMICS AND TRADE

TIME ALLOWED: 3 HOURS

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## Instructions

1. This paper consists of Section (A) and (B).
2. Section A is compulsory.
3. Answer any two (2) questions from Section B.

## Special Requirements

Scientific calculator

## Additional Material (s)

1. None

*Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must NOT write anything else until the start of the examination period is announced.*

*No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.*

**DO NOT turn examination paper over until instructed to do so.**

## SECTION A

### QUESTION 1 (COMPULSORY)

[Total Marks = 40]

- 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 implemented for the sole reason of restricting trade volumes. [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

[Total Marks = 30]

- a) Briefly state the **Law of One Price**. [6 Marks]
- b) Distinguish between **Absolute Purchasing Power Parity** and **Relative Purchasing Power Parity**. (Make sure to state or derive the mathematical equations and also explain the differences) [15 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. [9 Marks]

**QUESTION 3**

**[Total Marks = 30]**

- 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 4**

**[Total Marks = 30]**

- 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]