UNIVERSITY OF ESWATINI

INSTITUTE OF POST-GRADUATE STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

SPECIAL EXAMINATION PAPER 2018/19

DEGREE   :   MASTER OF BUSINESS ADMINISTRATION

TITLE OF PAPER   :   INTERNATIONAL ECONOMICS AND TRADE

COURSE CODE   :   ACF 608

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 $NGN25/E1$ 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 mathematically 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]