UNIVERSITY OF ESWATINI

DEPARTMENT OF ECONOMICS

MAIN EXAMINATION MAY 2019

PAPER TITLE : INTERNATIONAL TRADE II

COURSE CODE : ECON407/ECO 404

INSTRUCTIONS:

1. ANSWER THREE QUESTIONS.
2. QUESTION ONE IS COMPULSORY.
3. TIME ALLOWED: TWO (2) HOURS

This paper is not to be opened until permission has been granted by the invigilator.

QUESTION 1 (COMPULSORY)

Write short notes on the following terms as used in international trade

a) Statement of International Transactions 5]
b) Purchasing power parity (PPP) [5]
c) Autonomous transactions [5]
d) Speculative bubble [5]
e) Limitations of the Balance-of-Payments Information [5]
f) Discuss the 'Triffin Dilemma' [15]

QUESTION 2

a) You are given the following figures for the Kingdom of Eswatini international transactions in billions of Emalangeni.

Merchandise imports	-E300
Merchandise exports	+E200
Exports of service	+E100
Imports of services	-E80
Income receipts on Eswatini assets abroad	+E60
Income payments on foreign assets in Eswatini	-E30
Foreign private assets in Eswatini (net increase)	-E100
Eswatini private assets abroad (net increase)	-E50
Change in Eswatini or foreign official reserve holdings	0

Calculate the following:

i. Balance of trade
ii. Balance of goods and services
iii. Balance on current account
iv. Official reserve transactions balance

[4 Marks each]

b) Because one country's deficit must equal other country's surpluses, the current account for the world as a whole should balance. But the statistics do not show such a balance. Why? [18]

QUESTION 3

a) What was the Smithsonian Agreement, and what led to the breakdown of Bretton Woods? [20]

b) Discuss the theory of absolute purchasing power. [10]

QUESTION 4

a) How and why do monetary and fiscal policies affect the exchange rate? [20]

b) The international Fisher effect explains the moving from interest rates to exchange rates. The international Fisher effect shows that the expected percentage change of the exchange rate is a function of different interest rates in two countries. Derive the Fisher effect equation [10]