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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY
KBA 2307 INTERNATIONAL PAYMENT

Date: 13TH AUGUST 2024
Time: 8:30AM – 10:30AM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

US-CHINA TRADE WAR

- a) US President Joe Biden on 14th May, 2024 ramped up tariffs on Chinese-made electric cars, solar panels, steel and other goods. The White House said the measures, which include a 100% border tax on electric cars from China, were a response to unfair policies. China said it was opposed to the hikes and would take retaliatory measures. Mr Biden vowed that he would not let China "unfairly control the market" for electric vehicles and other key goods, including batteries, computer chips and basic medical supplies. The tariffs announced will hit an estimated \$18bn worth of imports, the White House said. As well as a rise from 25% to 100% on electric vehicle tariffs, levies on solar cells will increase from 25% to 50%. Tariff rates on certain steel and aluminum products will more than triple to 25%, up from 7.5% or less. In response, China's commerce ministry said the new moves would "severely affect the atmosphere for bilateral cooperation", and criticized what it characterised as the politicisation of economic issues.

Required:

- i) In view of the trade relations between China and the US and despite the underlying benefits of international trade, its not without some negative consequences especially to the host countries. Explain three reasons why governments impose trade barriers? **(6 Marks)**
- ii) The trade war between the US on China can affect the bilateral trade (importing& exporting) between the two nations. While citing relevant examples, explain the importance of importing and exporting activities to both countries. **(6 Marks)**
- iii) The motivation of the US imposing tariffs on Chinese goods is among other reasons aimed at addressing the trade imbalance between the two countries. As an expert in international trade suggest any three measures that can be employed by the US government to address the balance of payment disequilibrium **(6 Marks)**
- iv) Outsourcing from developed countries like the US to developing countries like China is given as one of the causes of trade imbalance. In view of that highlight any three benefits that US manufacturing firms obtain from outsourcing their activities in developing countries and what are the economic advantages to the host countries **(6 Marks)**
- v) One of the world's leading providers of fifth-generation (5G) mobile technology, Huawei, a Chinese telecommunications giant has faced restrictions as part of a larger crackdown by the US on Chinese technology companies. Identify any three risks such firms such as Huawei face when operating in a multinational environment and discuss ways in which they can militate against such risks **(6 Marks)**

QUESTION TWO (20 MARKS)

- a) International trade poses a number of risks caused by payment uncertainties. Explain four methods of payments commonly preferred in international transactions that help protect traders (8 Marks)
- b) Discuss four advantages accrued by a multinational firm from engaging in international trade (8 Marks)
- c) Differentiate between the internal business environment and external business environment (4 Marks)

QUESTION THREE (20 MARKS)

- a) Differentiate between terms as used in international trade.
 - i. Forward contracts and futures contracts (2 Marks)
 - ii. Call option and put option (2 Marks)
 - iii. Currency swap and debt-equity swap (2 Marks)
- b) Any firm operating internationally has to consider and know to deal with foreign exchange matters. Highlight and explain four ways that foreign exchange rates can affect a business firm (8 Marks)
- c) Describe any three alternative options that a business has to consider before going international (6 Marks)

QUESTION FOUR (20 MARKS)

- a) A bag of cement costs ksh.650 in Kenya. The same bag of cement cost Tsh.13, 975 in Tanzania. If the official exchange rate between the two currencies is ksh.1=Tsh.19.59

Required:

- i) Calculate the purchasing power parity (6 Marks)
 - ii) Determine whether or not the Kenyan shilling is overvalued (2 Marks)
- b) Trade finance is a form of short to medium term working capital solution which uses the security of the stock or goods being exported /imported as a guarantee. Discuss the benefits of trade financing (8 Marks)
- c) Describe any four factors affecting the development of international banking (4 Marks)

QUESTION FIVE (20 MARKS)

- a) Suppose that the one-year dollar interest rate is 5 per cent, and the sterling interest rate is 8 per cent, and the spot rate of the dollar against the pound is \$1.60/£1. Determine the one year forward exchange rate of the pound (8 Marks)
- b) Discuss any three factors that affect foreign exchange rates (6 Marks)
- c) Companies trade internationally via different means or participation strategies which differ in the degree of risk they present, the control and commitment of resources they require and the return on investment they promise. Explain the following concepts with regards to methods of trading
 - i) Exporting (2 Marks)
 - ii) Licensing (2 Marks)
 - iii) Franchising (2 Marks)
 - iv) Turnkey projects (2 Marks)