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KIBABII UNIVERSITY



UNIVERSITY EXAMINATIONS 2021/2022 ACADEMIC YEAR FIRST YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT

COURSE CODE: **BBM 125**

COURSE TITLE: **INTRODUCTION TO
INTERNATIONAL BUSINESS**

DATE: **16/05/2022** TIME: **2.00PM – 4.00PM**

INSTRUCTION TO CANDIDATES

- 1) The paper contains **FIVE** questions
- 2) Attempt **THREE** questions
- 3) Question **ONE** is Compulsory

KIBU observes **ZERO** tolerance to examination cheating

QUESTION ONE

Read the case study below and answer questions that follow

CASE: EFFECTS OF INFLATION TO THE ECONOMY

The report entitled –“A Study on Inflation” elucidates inflation (or less frequently, price inflation) which is a general rise in the price level in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation reflects a reduction in the purchasing power per unit of money– a loss of real value in the medium of exchange and unit of account within the economy. The opposite of inflation is deflation, a sustained decrease in the general price level of goods and services. The common measure of inflation is the inflation rate, the annualized percentage change in a general price index, usually the consumer price index, over time.

Economists believe that very high rates of inflation and hyperinflation are harmful, and are caused by an excessive growth of the money supply. Views on which factors determine low to moderate rates of inflation are more varied. Low or moderate inflation may be attributed to fluctuations in real demand for goods and services, or changes in available supplies such as during scarcities. However, the consensus view is that a long sustained period of inflation is caused by money supply growing faster than the rate of economic growth.

Inflation affects economies in various positive and negative ways. The negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may discourage investment and savings, and if inflation were rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future. Positive effects include reducing unemployment due to nominal wage rigidity, allowing the central bank greater freedom in carrying out monetary policy, encouraging loans and investment instead of money hoarding, and avoiding the inefficiencies associated with deflation.

Today, most economists favour a low and steady rate of inflation. Low (as opposed to zero or negative) inflation reduces the severity of economic recessions by enabling

the labour market to adjust more quickly in a downturn, and reduces the risk that a liquidity trap prevents monetary policy from stabilizing the economy. The task of keeping the rate of inflation low and stable is usually given to monetary authorities. Generally, these monetary authorities are the central banks that control monetary policy through the setting of interest rates, through open market operations, and through the setting of banking reserve requirements.

- a) Expound on the concept of Inflation to an economy? **(5 marks)**
- b) What could be the probable causes of inflation? **(10 marks)**
- c) Discuss the effects of inflation to an economy **(10 marks)**
- d) What are the strategies to counter the negative effects of inflation? **(5 marks)**

QUESTION TWO

- a) Discuss why firms engage in international business **(10 marks)**
- b) Explain the advantages of multinational corporations to the societies in which they exist **(10 marks)**

QUESTION THREE

- a) Discuss why entrepreneurs should practice business ethics **(10 marks)**
- b) Describe FIVE reasons why managers of firms need to understand business environment in which they operate in **(10 marks)**

QUESTION FOUR

- a) A manufacturing firm has had plans to enter overseas markets. Advise the firm why it should enter overseas markets. **(10 marks)**
- b) Briefly explain entry strategies to foreign market **(10 marks)**

QUESTION FIVE

- a) Discuss the main challenges of an international strategic alliance **(10 marks)**
- b) Though International Business has a lot of advantages, it has also a share of its drawbacks. Elucidate the shortcomings of International Business to an Entrepreneur **(10 marks)**