When guest OS executes a privileged instruction, CPU traps it and hypervisor intercepts it. If a instruction is to sensitive or doesn't mean anything about the system, hypervisor tries to emulate it in a meaningful way with binary translation in run time. It maintains control with this path.  
In Type 1: guest -> hypervisor -> hardware -> hypervisor -> guest OS  
In Type 2: guest -> hypervisor -> host OS -> hardware -> host -> hypervisor -> guest.  
In Type 2: hypervisor intercepts and send it to host OS.