



**AFRICAN ECONOMIC RESEARCH CONSORTIUM**  
**Collaborative Masters Programme in Economics for Anglophone Africa**  
**(Except Nigeria)**

**JOINT FACILITY FOR ELECTIVES (JFE) 2013**

**JUNE – SEPTEMBER**

**MONETARY THEORY AND PRACTICE II**

**Second Semester: Final Examination**

**Duration: 3 Hours**

**Date: Tuesday, September 17, 2013**

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**INSTRUCTIONS:**

1. Answer **ANY THREE** questions.
  2. All questions carry equal marks.
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**Question 1**

- (a) What is the role of financial intermediaries in the economy and how can they promote economic efficiency in financial markets? **(10 marks)**
- (b) What are:
  - (i) the main objectives for government regulation of the financial system? **(5 marks)**
  - (ii) some of the arguments against financial regulations? **(5 marks)**

**Question 2**

- (a) Recent research has recognized the existence of a vibrant informal financial sector, especially in developing economies. What is motivation for its existence? **(10 marks)**
- (b) How does Financial Development lead to Economic development? **(10 marks)**

**Question 3**

- (a) With a clear labeled diagram, explain Stiglitz-Weiss (1981) model of credit rationing. Based on this model, explain the two major effects of credit rationing especially in relation to developing countries. **(10 marks)**
- (b) Explain the role of financial liberalization for African economies. **(10 marks)**



#### **Question 4**

- (a) Explain the major causes of external debt in Developing countries. **(9 marks)**
- (b) What are the indicators of external debt for Developing countries? **(5 marks)**
- (c) Explain the different types of debt reduction schemes. **(6 marks)**

#### **Question 5**

- (a) Explain the concept of the Gold standard. **(3 marks)**
- (b) What are the advantages of the Gold standard? **(7 marks)**
- (c) What are the advantages and disadvantages of a currency board to an economy? **(10 marks)**

#### **Question 6**

- (a) What are the key issues stipulated in the portfolio approach to the balance of payments and exchange rate determination? **(10 marks)**
- (b) Assume equilibrium in the open economy, what would be the effects of a change in the official exchange rate (devaluation)? Illustrate your answer with clear labeled diagrams. **(10 marks)**