



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

JOINT FACILITY FOR ELECTIVES (JFE) 2012

JUNE – SEPTEMBER

MONETARY THEORY AND PRACTICE II

Second Semester: Final Examination

Duration: 3 Hours

Date: Tuesday, September 18, 2012

INSTRUCTIONS:

1. Answer **QUESTION 1** in **Section A** and **ANY TWO** questions in **Section B**.
 2. You are required to answer **THREE** questions in total. Note that **QUESTION 1** is **COMPULSORY**.
 3. All questions carry equal marks.
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Section A:

This Question is Compulsory

Question 1

- (a) Explain the concept of information asymmetry in the context of the credit market.
(10 marks)
- (b) Using Stiglitz and Weiss (1981) model, analyse how asymmetric information explained above often leads to adverse selection and moral hazard, in the process of lender's credit rationing at the equilibrium.
(10 marks)

Section B:

Answer ANY TWO Questions in this Section

Question 2

- (a) What is meant by the balance of payments of a country?
(10 marks)
- (b) Discuss how the fiscal and monetary policies can be used to correct imbalances in the balance of payments in a fixed exchange rate regime. Illustrate your answer using IS, LM, and BP curves.
(10 marks)



Question 3

Discuss the fundamental features of the International Monetary Fund (IMF) Financial Programming Model and the World Bank Revised Minimum Standards Model (RMSM) in the context of enhancing economic growth in developing countries. **(20 marks)**

Question 4

"The Tobin (1965) model argued that money plays a role in economic growth". Discuss the theoretical framework of the money in growth model. **(20 marks)**

Question 5

Write short notes on the following:

- (a) The Gold Standard. **(10 marks)**
- (b) The Bretton Woods System. **(10 marks)**