

AFRICAN ECONOMIC RESEARCH CONSORTIUM

**Collaborative MA Programme in Economics for Anglophone Africa
(Except Nigeria)**

**JOINT FACILITY FOR ELECTIVES
JUNE – OCTOBER 2005**

MONETARY THEORY & PRACTICE

Second Semester: Final Examination

Time: 09.00 AM – 12.00 Noon

Saturday, September 24, 2005

INSTRUCTION: Answer FOUR questions only

Question 1.

- (i) Critically examine the McKinnon-Shaw and the Stiglitz-Weiss explanations of credit rationing in banking markets. (7 marks)
- (ii) Discuss the impact that asymmetric information may have on bank lending policy. (8 marks)

Question 2

- (i) Examine the arguments of the “free banking school” typified by Hayek and Friedman against the existence of central banking. (7 marks)
- (ii) How relevant are these arguments in light of the role of modern central banks especially in a developing economy? (8 marks)

Question 3

- (i) What is the main difference in the assumptions underlying the simple and the extended Mundell-Fleming (M-F) model? Explain. (5 marks)

- (ii) How does this modification of the simple M-F model affect the conclusions on the effectiveness of devaluation as a policy tool when balance of payments developments are (a) not sterilised and (b) sterilised? (10 marks)

(You are advised to liberally use either mathematical or graphical illustrations in answering this question).

Question 4

- (i) Was the post-1959 Bretton Woods system an effective replica of modern monetary union? Explain. (9 marks)
- (ii) What are the immediate and remote causes of the collapse of the Bretton Woods system? (3 marks)
- (iii) What is the most important cost of a monetary union and in what ways (if any) is this similar to the factors enumerated in question 4 (ii)? (3 marks)

Question 5

- (i) What are the main differences in the populist, orthodox and heterodox approaches to stabilisation programmes? (5 marks)
- (ii) Outline the contents of the IMF financial programming model stressing its policy implications. (5 marks)
- (iii) Examine the McKinnon-Kapur argument for the use of high interest rates as against credit restraint (money supply contraction) as an orthodox stabilisation tool with special emphasis on their likely consequences in Africa. How may heterodox policies complement this policy? (5 marks)

Question 6

Write brief explanatory notes on the following emphasizing their meaning and context:

1. Real wage resistance
2. Confidence gap theory
3. The impossible trinity
4. The 'conduit' effect
5. "Cold turkey"

(3 marks for each answer well explained =15marks)