

AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES (JFE)

JULY – OCTOBER 2006

MONETARY THEORY AND PRACTICE II

Second Semester: Final Examination

Duration: 3 Hours

Date: Wednesday, October 4, 2006

INSTRUCTION:

Answer **ANY THREE** Questions.

1. (a) Carefully explain and justify the claim that the effect of a change in money supply on the balance of payments depends largely on the prevailing exchange rate system. **(10 marks)**

(b) Discuss the McKinnon-Shaw Financial Development model and evaluate it in the context of empirical evidence from developing countries. **(10 marks)**

2. (a) Carefully examine the statement that “credit rationing is a phenomenon with diverse origins”. Analyze the implications of credit rationing for financial development. **(10 marks)**

(b) Analyze the macroeconomic policy implications of the large informal financial sector in developing countries and investigate the growth of the sector in relation to financial restrictions. **(10 marks)**

3. (a) Present a rigorous analysis of the welfare implications of effective international policy coordination and explain the apparent failure of policy coordination efforts among developing countries. **(10 marks)**
- (b) The diverse stabilization programmes adopted by developing countries have largely produced unfavourable results. Examine the implementation of these programmes and the role played by the Bretton Woods institutions. **(10marks)**
4. (a) Present a monetary model and use it to demonstrate that the balance of payments can be determined by changes in domestic credit. **(10 marks)**
- (b) Discuss the salient features in the evolution of the International Monetary System and how this evolution has affected financial globalization. **(10 marks)**
5. (a) Critically analyze the major features of an Endogenous Growth Model and demonstrate how monetary conditions can affect growth in this model. **(10marks)**
- (b) Evaluate the critical factors in the escalation of external debt in developing countries and the major external interventions to resolve the problem. **(10marks)**