



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

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? **(9 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)**