



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES (JFE) 2016

JUNE – SEPTEMBER

MONETARY THEORY AND PRACTICE II

Second Semester: Final Examination

Duration: 3 Hours

Date: Monday, September 19, 2016

INSTRUCTIONS:

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

- (a) Why do financial intermediaries exist in today's economy? **(8 marks)**
- (b) What are the key components of a good financial system? **(4 marks)**
- (c) Why is it that informal financing could be more important than formal financing in African economies? Provide clear examples. **(8 marks)**

Question 2

- (a) Briefly explain the meaning of asymmetric information and how this could lead to the problems of adverse selection and moral hazard behavior in financial markets. **(4 marks)**
- (b) Explain the determinants of financial development in African economies. **(9 marks)**
- (c) In reference to endogenous growth models, discuss the link between financial development and economic growth, especially in reference to African countries. **(7 marks)**



Question 3

- (a) Suppose your economy is experiencing a balance of payment deficit. Suggest measures that could be adopted to reduce such an imbalance. **(6 marks)**
- (b) What could be the reasons why some people in your economy may decide to hold their portfolios in foreign currency? **(6 marks)**
- (c) Assume an economy that is experiencing both internal and external equilibrium, with a flexible exchange rate and perfect capital mobility. What would be the impact of an expansionary monetary policy? Use a clearly labeled diagram to support your argument. **(8 marks)**

Question 4

- (a) Define gold standard. **(2 marks)**
- (b) What are the advantages and disadvantages of gold standard? **(10 marks)**
- (c) Discuss the causes of external debt for developing countries. **(8 marks)**

Question 5

- (a) What are the advantages and disadvantages of currency boards? **(8 marks)**
- (b) Discuss the key criticisms of structural adjustment programs (SAPs) especially in reference to developing countries. **(5 marks)**
- (c) Compare and contrast 'Elasticity Approach' and 'Absorption Approach' to balance of payment and exchange rate determination. **(7 marks)**