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AFRICAN ECONOMIC RESEARCH CONSORTIUM

JOINT FACILITY FOR ELECTIVES
JULY-OCTOBER, 1995

MONETARY THEORY AND PRACTICE

Second Session: Final Examination

TIME: 9.00 am - 12 noon

September 29, 1995

INSTRUCTIONS: Attempt FOUR (4) questions : ONE question from each of the four sections. Note the weighting for each section, and allocate your time accordingly. Please, start each question on a fresh page. The exam will be graded out of a total of 60 marks.

SECTION A (18 MARKS)

1.
 - (a) Briefly explain how the Bretton Woods System operated during its existence (1944-1971). (5 marks)
 - (b) Explain the 'Special Facilities' of the International Monetary Fund (IMF) available to a needy member country to use. (5 marks)
 - (c) How does a needy country qualify to use the special facilities discussed in (b) above? (3 marks)
 - (d) Explain the conditionalities issue, and some of the suggestions by developing countries as to how to restructure the Bretton Woods institutions. (5 marks)

SECTION B (14 MARKS)

2.
 - (a) What is meant by the debt crisis and what were its major causes? ✓ (7 marks)
 - (b) Do structural adjustment programmes (SAPs), in your opinion, offer a solution to the debt problems of a developing country? Elaborately explain your answer. (7 marks)

- 3.
- (a) Explain the monetary approach to the balance of payments. (6 marks)
 - (b) Compare and contrast the monetary approach to the balance of payments with
 - (i) the absorption approach; (4 marks)
 - (ii) the elasticities approach. (4 marks)

SECTION C (14 MARKS)

- 4.
- (a) Explain the effects of inflation as presented in various literature on the subject. (6 marks)
 - (b) Discuss the major differences between the Keynesian and monetarist schools of thought on the causes of inflation and on anti-inflation policies available to a country. (8 marks)
- 5.
- (a) Explain how expectations, say, on inflation are formed, using the adaptive expectations theory as an example. Be sure to state clearly all assumptions involved. (7 marks)
 - (b) Compare and contrast the adaptive expectations theory with the rational expectations theory. Which, in your opinion, explains better the formation of expectations on inflation in your country? (7 marks)

SECTION D (14 MARKS)

- 6.
- (a) Compare and contrast the Solow-Swan growth model with the Harrod-Domar model. (7 marks)
 - (b) Discuss a simple growth model that introduces money in a Solow-Swan type of growth model. Use your simple monetary growth model to discuss the neutrality or non-neutrality of money in economic growth. (7 marks)
7. Write an essay on
- (a) the static advantages and
 - (b) the dynamic advantages
- of a fragmented, monetary economy with financial intermediation over a barter economy. (14 marks)

8. Write brief notes on **ANY FOUR** of the following: [5 points each]
- (a) McKinnon's complementarity hypothesis
 - (b) Financial repression
 - (c) Modelling the relationship between financial indicators and economic growth
 - (d) The state versus the market in financial development
 - (e) The role of financial intermediaries in economic development.