



# **AFRICAN ECONOMIC RESEARCH CONSORTIUM**

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

**JOINT FACILITY FOR ELECTIVES (JFE)**

**JUNE – SEPTEMBER 2007**

**MONETARY THEORY AND PRACTICE II**

**Second Semester Examination**

**Duration: 3 Hours**

**Date: Thursday, September 27, 2007**

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**INSTRUCTION:**

Answer **ANY THREE** Questions.

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**Question 1**

- (a) Discuss the major arguments in favour of financial regulation and carefully explain the implications of financial deregulation for resource allocation in the economy. (10 marks)
- (b) Critically analyse McKinnon's Complementarity Hypothesis as well as Shaw's Debt Intermediation Hypothesis and explain clearly the essential elements that make them compatible. (10 marks)

**Question 2**

- (a) Provide a clear explanation on the distinction between 'Monetary Deregulation' and 'Financial Deregulation' and carefully examine the major factors that could lead to successful financial sector reforms in developing countries. (10 marks)
- (b) What do you understand by 'Internal and External Imbalance'? Use the Swan Model to explain this situation and how a policy-mix could be used to restore equilibrium in an open economy. (10 marks)



### Question 3

- (a) Critically discuss the major factors underlying the existence of informal financial market in developing countries and explain the salient features that distinguish it from the formal market. **(10 marks)**
- (b) Carefully analyse the various factors that could determine the efficient functioning of a monetary union and explain the major operations of a typical monetary union in developing countries. **(10 marks)**

### Question 4

- (a) Use appropriate mathematical model to demonstrate that the relationship between balance of payments and exchange rate is largely determined by elasticity conditions. **(10 marks)**
- (b) Discuss the salient factors facilitating financial globalisation and how this phenomenon has affected the structure and transactions of financial institutions in developing countries. **(10 marks)**

### Question 5

- (a) Critically analyse the major features of a Neo-Classical Growth Model in the Cobb-Douglas form and demonstrate how increase in savings can affect growth in this model. **(10 marks)**
- (b) Carefully discuss the events leading to the collapse of the Bretton Woods System and the major differences between that system and the current international monetary system. **(10 marks)**