



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES (JFE) 2010

JUNE – OCTOBER

MONETARY THEORY AND PRACTICE II

Second Semester: Final Examination

Duration: 3 Hours

Date: Wednesday, September 29, 2010

INSTRUCTIONS:

1. Answer **QUESTION 1** in Section A and **ANY TWO** questions in Section B.
 2. You are required to answer **THREE** questions in total. All questions carry equal marks.
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SECTION A

This Question is Compulsory

Question 1

- (i) Discuss the theoretical underpinnings of Monetary Approach and Absorption Approach to balance of payments and exchange rate determination. **(20 marks)**
- (ii) Using Stiglitz and Weiss (1981) model analyse how asymmetric information often leads to adverse selection and moral hazard, in the process of lender's credit rationing at the equilibrium. **(20 marks)**

SECTION B

Answer ANY TWO Questions in this Section

Question 2

- (i) Discuss the underlying causes of the current global financial crisis (2007-10) and its implications on developing countries. **(15 marks)**
- (ii) "Informal financial institutions have unique resilience that makes them to co-exist alongside the liberalized formal financial sector in most developing economies" Discuss this statement with specific reference to the unique characteristic features of the different informal financial institutions in developing countries. **(15 marks)**



Question 3

- (i) Discuss the theoretical foundations of the Money in Utility (MIU) model. **(15 marks)**
- (ii) Discuss the fundamental features of the International Monetary Fund (IMF) Financial Programming Model and the World Bank Revised Minimum Standards Model (RMSM) in the context of enhancing economic growth in developing countries. **(15 marks)**

Question 4

- (i) Critically analyze the major features of an endogenous growth model and demonstrate how monetary conditions can affect growth in this model. **(15 marks)**
- (ii) Discuss how expansionary fiscal and monetary policies affect macroeconomic equilibrium in an open economy under a fixed exchange rate system. **(15 marks)**