



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES (JFE) 2013

JUNE – SEPTEMBER

INTERNATIONAL ECONOMICS II

Second Semester: Final Examination

Duration: 3 Hours

Date: Thursday, September 19, 2013

INSTRUCTIONS:

1. Answer **ANY FOUR** questions.
 2. All questions carry equal marks.
 3. Use mathematical models with clearly identified variables and/or clearly labeled diagrams to support your discussion where appropriate.
-

Question 1

- (a) Provide brief explanations on:
- (i) Costs of sovereign default. **[6 marks]**
 - (ii) Static expectations and rational expectations. **[4 marks]**
- (b) The Balance of Payments (BoP) has two main components, the *Current Account*; and *Capital and Financial Account*. Complete the following table correctly placing relevant sub-components of balance of payments using the items listed below: **[5 marks]**

Current Account		Capital and Financial Account	
1		1	
2		2	
3		3	
4			

Possible sub-components of Capital account; Capital and Financial account

- Trade balance (merchandise account)
- Non-financial services
- Foreign exchange reserves
- Other capital account (long term and short term capital transfer)
- Investment income
- Unilateral transfers / unrequited transactions
- Central Bank Credit (CBC)
- Direct investment account
- Net errors and omissions
- Purchasing power parity (PPP)



Question 2

Discuss the extension by Kouri (1983) of the portfolio balance approach to exchange rate determination. **[15 marks]**

Question 3

Many regional economic communities (RECs) in Africa have long term vision of moving up the regional integration ladder from the free trade area (FTA) right through to the higher levels including monetary union which involves a common currency.

- (a) Discuss any five justifying conditions for an optimal currency area (OCA) to exist. **[5 marks]**
- (b) What are the benefits and costs of having a regional currency for a particular currency? **[5 marks]**
- (c) Why has it been so difficult to date for certain RECs in Africa to have a single currency? **[5 marks]**

Question 4

- (a) What are the causes of the Debt Crisis starting in the early 1980s? **[5 marks]**
- (b) What are the main Concerns and Criticisms about the World Bank and the IMF when they are dealing with developing countries especially Africa? **[5 marks]**
- (c) The Kivu Consensus (KC), among others identified competitiveness as the critical element in an African strategy to increase employment and prosperity. Explain any five of the ten key aspects highlighted by the KC to improve competitiveness in Africa. **[5 marks]**

Question 5

- (a) The Purchasing Power Parity (PPP) approach to the determination of exchange rate has been criticized on the basis that it does not take into consideration the prices of non-tradeable goods. Show how the generalized PPP approach provides some solution to this problem. (Please interpret your results very clearly). **[8 marks]**
- (b) Discuss some of the reasons for the poor performance of the PPP approaches to exchange rate determination, especially in Africa. **[7 marks]**

Question 6

- (a) Using the Mundell-Fleming Model analyse the impact of an expansionary monetary policy under both fixed and floating exchange rate regimes with perfect capital mobility. **[8 marks]**
- (b) Explain the major weaknesses of the Mundell-Fleming Model in terms of applicability to typical developing countries or less developed countries. **[7 marks]**