

***AFRICAN ECONOMIC RESEARCH CONSORTIUM  
JOINT FACILITY FOR ELECTIVES  
SESSION II  
2001- FINAL EXAMS***

***International Economics II***

Answer **Four** questions.

1. Elaborate the following concepts:
  - (a) Uncovered interest parity condition (5)
  - (b) Preconditions for a monetary union (5)
  - (c) Sovereign default (5)
2. Define and give a critique of Purchasing Power Parity (PPP). What does empirical evidence on PPP suggest? Cite examples that support and / or refute the PPP as a theory.
3. Compare and contrast the monetary model of exchange determination with flexible and with sticky prices in terms of basic assumptions and the way in which exchange rates are determined. What are the major weaknesses of these models?
4. Using both conceptual and empirical arguments, give an assessment of the major attempts to model exchange rate expectations.
5. Discuss the efficacy of devaluation as a tool for balance of payments adjustment in a typical poor country.
6. Briefly describe the major types of capital controls that are prevalent in most developing countries. What steps and policies should be taken towards the liberalisation of the capital account in these countries?