



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES
JUNE – OCTOBER, 2004

INTERNATIONAL ECONOMICS

Second Session: Final Examination

Time: 9.00 AM – 12.00 Noon

Saturday September 25, 2004

INSTRUCTIONS

- Answer any 3 (Three) questions: all questions carry equal marks of 20 each;
 - Explore mathematical models with clearly identified variables and/or clearly labelled Diagram(s) to support your discussion where appropriate;
 - In any of the questions attempted, please clearly highlight all simplifying and underlying assumptions.
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Question 1

- (a) Tanzania is a small open developing country that operates a fractional reserve banking system and some variant of the fixed exchange rate regime. It is a common knowledge that a relation exists between the activities of the banking public, the non-banking public, the central bank, the balance-of-payments and changes in Money Supply in Tanzania. Establish very concisely, with clear explanations, this relation and define the key economic variables and parameters so derived. [4 Points]



Question 3

- (a) Briefly explain the major complications that may arise when Caleb, a Zimbabwean needs to transact a business with Claines, (a fellow Zimbabwean) and Thuto, a Motswana. [6 Points]
- (b) Highlight the major differences between the real exchange rates and effective exchange rates. [4 Points]
- (c) On September 20 2004, the nominal exchange rate between the British Pound Sterling and a number of other currencies were given as below:

US\$	1.713
DM	3.120
Yen (¥)	228.8
FFr.	10.50
SFr.	2.590
HfL.	3.515
Lira	2314
C\$	2.066
BFr.	65.35

Derive and tabulate the cross exchange rates between the quoted currencies and briefly explain the importance of such a table. [10 Points]

Question 4

The Mundell-Fleming Model has been one of the major policy models driving economic policy formulation in many countries of the world in the last couple of decades. However, some of the major weaknesses of the model may render it inappropriate (at least in the short-run) for a typical Developing country of sub-Saharan Africa.

- (a) Highlight the major assumptions of the Mundell-Fleming model and explain how some of these assumptions also constitute its major weaknesses in terms of applicability to a typical low income developing or less developed country. [8 Points]