



# AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

## JOINT FACILITY FOR ELECTIVES

JUNE – SEPTEMBER 2007

## INTERNATIONAL ECONOMICS II

### Second Semester: Final Examination

Duration: 3 Hours

Date: Friday, September 28, 2007

#### INSTRUCTIONS:

Answer ANY FOUR questions.

Explore mathematical models with clearly identified variables and/or clearly labeled diagram(s) to support your discussion where appropriate.

Clearly highlight all simplifying and underlying assumptions. Your answers should be well structured and straight to the point.

1. Elaborate the links between capital mobility, asset substitutability, covered interest parity and uncovered interest parity. How relevant are the concepts in explaining the movement of capital from developed to the less developed countries?  
(15 marks)
2. Outline the dependent economy model for determining internal and external balances. What modifications are necessary to make the model relevant for formulating policies in developing countries?  
(15 marks)
3. Discuss the limitations of the elasticities and absorption approaches to the balance of payments. How are the limitations overcome?  
(15 marks)



4. Examine the effects of expansionary fiscal policy using the Mundell-Fleming model of an open economy under flexible and fixed exchange rates. What are the weaknesses of the model? **(15 marks)**
  
5. Discuss the monetarist model for determining the optimal degree of foreign exchange market intervention. Are the implications of the model relevant for exchange rate management in developing countries? Give reasons. **(15 marks)**
  
6. Outline the Dornbusch overshooting model. Clearly explain the adjustment mechanism towards the long run equilibrium conditions. How closely does the adjustment mechanism relate to that of a typical developing country? **(15 marks)**

**END**