



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES (JFE) 2009

JUNE – OCTOBER

INTERNATIONAL ECONOMICS II

Second Semester: Final Examination

Duration: 3 Hours

Date: Friday, September 25, 2009

INSTRUCTIONS:

Answer **ANY FOUR** questions.

Explore mathematical models with clearly identified variables and/or clearly labeled diagrams(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.

Question 1

“But even if credible, a hard peg does not automatically lead to the emergence of alternative nominal flexibility, particularly in wages, fiscal spending and financial contracting, to compensate for the loss of the nominal exchange rate as a policy instrument.”

Use the operations of the Gold Standard to discuss the above statement demonstrating its relevance in developing economies. **(15 Marks)**

Question 2

- (a) Show, while stating clearly the assumptions used, that the Balance of Payments is a manifestation of excess money demand and supply. How realistic is this from a developing economy point of view? **(7 Marks)**
- (b) With the aid of diagrams show what happens to the balance of payments within the framework you have used in (a) when there is:
- (i) A devaluation **(4 Marks)**
 - (ii) An increase in money supply **(4 Marks)**



Question 3

Show what happens within the Portfolio Balance Model in the short run where there is:

- (a) A 'helicopter drop' of money (4 Marks)
- (b) An open market operation to increase the money supply (4 Marks)
- (c) Show that within this model purchasing power parity can be violated in the long run. (7 Marks)

Question 4

Discuss the conditions necessary for a region to have a single currency. What are the benefits and costs of having a regional currency for a particular country? Why has it been so difficult for certain regions in Africa to have a single currency? (15 Marks)

Question 5

- (a) Describe the operations of the Bretton Woods system of international finance indicating how it dealt with the twin problems of adjustment and liquidity. (8 Marks)
- (b) What is Triffin's Dilemma and how was it dealt with in the Bretton Woods system? (7 Marks)

Question 6

What are the causes of the Debt Crisis starting from the early 1980s? Discuss the criticisms of the International Monetary Fund's approach to debt relief in the 1980s and 1990s. What remedies were proposed to reform the treatment of Highly Indebted Poor Countries? (15 Marks)