



AFRICAN ECONOMIC RESEARCH CONSORTIUM

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

JOINT FACILITY FOR ELECTIVES (JFE) 2010

JUNE – OCTOBER

INTERNATIONAL ECONOMICS II

Second Semester: Final Examination

Duration: 3 Hours

Date: Friday, September 24, 2010

INSTRUCTIONS:

1. Answer **ANY FOUR** questions.
 2. Explore mathematical models with clearly identified variables and/or clearly labeled diagrams to support your discussion where appropriate.
 3. Clearly highlight all simplifying assumptions. Your answers should be well structured and concise.
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Question 1

Explain whether the following statements are **True** or **False**.

- (i) Under the Classical (Humean) Price-Specie-Flow Mechanism, the ultimate cause of a balance of payment disequilibrium is to be found in monetary disequilibrium. **(7.5 marks)**
- (ii) The Post-Washington Consensus and Kivu Consensus send Africa policy makers inconsistent messages on economic reform. **(7.5 marks)**

Question 2

In a 2-Country Mundell-Fleming Model, with perfect capital mobility, analyze the impact of:

- (i) An expansionary Monetary Policy under **both** fixed and floating exchange rate regime; **(8 marks)**
- (ii) An expansionary Fiscal policy under a fixed exchange rate regime. **(4 marks)**
- (iii) How does your result in (i) and (ii) above change with full indexation? **(3 marks)**

(In each case, clearly show who is responsible for maintaining the peg and the underlying assumptions).



Question 3

“The United States monetary policy may have wrecked the Bretton Woods System (BWS) by confronting foreign policy makers with a choice between fixed exchange rates and imported inflation”. Using appropriate tools, analyze:

- (i) How imported inflation could have led to the collapse of the BWS. **(6 marks)**
- (ii) What if foreign policy makers did not mind importing inflation, could your analysis in (i) above change? **(3 marks)**
- (iii) What does the post BWS experience reveal on the performance of the BWS compared to the current international monetary system? **(6 marks)**

Question 4

- (i) Assuming that purchasing power parity (PPP) holds, show that the real returns on uncovered (in the absence of risk) investments is equalized across countries. **(6 marks)**
- (ii) Discuss the impact of the global financial and economic crisis (GFEC) on African economies. Examine some of the measures that these economies have implemented to mitigate the effects of GFEC. **(9 marks)**

Question 5

- (i) Analyze the statement - “The Generalized purchasing power parity approach to exchange rate determination is an improvement of both absolute purchasing power parity (PPP) and the relative PPP”. Discuss some of the reasons for the poor performance of the PPP approaches to exchange rate determination, especially in Africa. **(6 marks)**
- (ii) Compare and contrast the monetary approach and the portfolio approach to exchange rate determination. **(9 marks)**

Question 6

Based on the monetary approach to balance of payments model (MABP), examine, while clearly stating the underlying assumptions:

- (i) The effects of an increase in income under floating exchange rate regime; **(5 marks)**
- (ii) The effects of an increase in foreign prices under fixed exchange rate regime; **(5 marks)**
- (iii) Some of the main criticisms of the MABP, especially in regard to its application to African economies. **(5 marks)**