

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INTERNATIONAL MONETARY ECONOMICS**

**(IOBM – AD302)**

**Date: Sunday, 12th May 2019**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

1. Explain the Breton Woods System and how it replaced the Gold Standard. *(5 marks)*
2. Explain the main Role of the IMF and World Bank in the Bretton Woods System.

*(5 marks)*

1. Discuss **two** factors that led to the collapse of the Bretton Woods System. *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Define GDP and explain the 3 methods for calculating GDP. *(6 marks)*
2. Suppose the National Statistics Office in Malawi publishes the following statistics on economy for the year 2018:

|  |  |
| --- | --- |
| Item | Amount (Billion MK) |
| Consumer spending | 200 |
| Investment spending | 55 |
| Local government spending | 120 |
| Central Government spending | 30 |
| Imports | 50 |
| Exports | 45 |
| Income taxes | 100 |

**Required:**

Calculate the GDP and interpret the result. *(9 marks)*

***(Total 15 marks)***

**QUESTION 3**

The International Monetary Fund (IMF) has played a part in shaping the global economy since the end of World War II.

**Required:**

1. Explain any **two** core activities of the IMF to its member states.  *(4 marks)*
2. Explain **three** types of Credit Facilities administered by IMF under the new Poverty Reduction and Growth Trust. *(6 marks)*
3. Explain **two** ways in which the IMF ensures accountability and transparency to its member states.  *(5 marks)*

***(Total 15 marks)***

**QUESTION 4**

1. Commercial Banks in Malawi publish exchange rates and interest rates in the daily local papers in circulation.

**Required:**

Define the exchange rate parity. *(3 marks)*

1. In 2015 the World Bank hailed Malawi Government for the implementation of Malawi’s floating exchange rate policy, saying it will help to achieve positive results, especially in the final months of the year, with import cover rising to over three months.

**Required:**

Define Floating Exchange Rate and contrast with a Fixed Exchange Rate with reference to Malawi Exchange regimes. *(4 marks)*

1. Explain how the following 3 factors determine Exchange rates in a country:
2. Balance of payment *(2 marks)*
3. Speculation *(2 marks)*
4. Interest rate *(2 marks)*
5. Inflation *(2 marks)*

***(Total 15 marks)***

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

The gold standard was a system whereby a country tied the value of its money to the amount of gold it possesses.

1. Discuss **two** functions of the gold standard. *(4 marks)*
2. Explain **three** advantages of gold standard. *(6 marks)*
3. Explain **three** disadvantages of gold standard. *(6 marks)*
4. Explain the expected impact on the economy and monetary policy if the United States of America (USA) contemplates returning to gold standard system. *(4 marks)*

***(Total 20 marks)***

**QUESTION 6**

1. Discuss **two** major functions of the EUM and how does it affect the member states in their economy management. *(8 marks)*
2. Discuss **four** benefits of having a single currency in view of the Euro*. (8 marks)*
3. Explain **four** main economic activities of EMU designed to support sustainable economic growth and high employment. *(4 marks)*

***(Total 20 marks)***

**QUESTION 7**

1. A deficit or surplus in the current account of a country can result in Balance of Payments imbalances. Why should countries be concerned about current account deficit? *(5 marks)*
2. State the **five** limitations of the measures of GDP. *(5 marks)*
3. Financial liberalization refers to the deregulation of domestic financial markets and the liberalization of the capital account.

**Required:**

1. Explain any **three** positive effects of the financial liberalization? *(6 marks)*
2. Explain any **two** negative effects of the financial liberalization? *(4 marks)*

***(Total 20 marks)***

**QUESTION 8**

1. Explain the difference between Gross Domestic Product (GDP) and Net Domestic Product (NDP).  *(5 marks)*
2. Why countries should be concerned about current account deficit rather than current account surplus, when both situations can lead to current account imbalances.

*(5 marks)*

1. Discuss any **two** implications of capital flight on a developing country. *(4 marks)*

1. Explain how each of the following have been obstacles to the flow of trade among countries:
2. Global Liquidity; *(2 marks)*
3. Global Imbalance; *(2 marks)*
4. Economic Growth.  *(2 marks)*

***(Total 20 marks)***

**\*\*END OF EXAMINATION PAPER\*\***