

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INTERNATIONAL MONETORY ECONOMICS (IOBM -AD302**

**Date: Sunday, 11th November 2018**

**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. In the year 2017, Curosoe economy had the statistics shown in Table 1. Use them to answer the questions that follow:

**Table 1: Statistics for Curosoe Economy**

|  |  |
| --- | --- |
| **Component** | **Amount(billion US$)** |
| Government spending | 1000 |
| Imports | 50 |
| Consumption | 200 |
| Depreciation of equipment | 20 |
| Purchase of new equipment | 50 |
| Interest from foreign owned assets | 10 |
| Profits from foreign owned assets | 12 |
| Profits from assets owned overseas | 15 |
| Wages earned overseas by citizens of the country | 9 |
| Interest earned overseas by a country’s citizens | 20 |
| Wages paid to foreigners | 30 |

**Required**

Calculate:

1. GDP for the economy using the aggregate expenditure approach. *(4 marks)*

ii) GNP for the economy. *(3 marks)*

1. Net Domestic Product (NDP) for the economy.  *(3 marks)*
2. To produce a 1 kilogram loaf of bread, a wheat farmer sales wheat to the wheat miller who turns it into wheat flour. Thereafter, the wheat flour is sold to a baker who finally bakes the bread. The following are the prices charged at each stage of the production process.

**Table2: Prices Charged at Each Stage of the Production Process of Bread**

|  |  |
| --- | --- |
| **Production Stage** | **Price Charged per Kilogramme (MK)** |
| Wheat Farmer | 100 |
| Wheat Miller | 150 |
| Baker | 200 |

**Required:**

1. Calculate the value added at each stage of the production process. *(3 marks)*
2. In order to avoid the double counting problem, determine the final price of bread?

*(2 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Describe **any two** features of a liquid asset.  *(4 marks)*
2. Countries A and B have been trading partners for over a decade. It has been observed that the incomes of both countries have risen thanks to good trading relations between the two countries.

**Required:**

i) Explain **any two** forms of financial transactions between the two countries.

*(4 marks)*

ii) Assume investors from country B are purchasing large quantities of securities of country A. Explain what will happen to country B’s exchange rate. *(3 marks)*

1. Explain **any two** determinants of exchange rates. *(4 marks)*

**(Total 15 marks)**

**QUESTION 3**

Many developing countries have very large debts, and the amount of money they owe is quickly increasing. Trying to pay off the debt has become a very serious problem for these countries, and it causes a great hardship for their nationals.

**Required**

1. Briefly, explain **any two** causes of the developing countries’ debt crisis. *(4 marks)*
2. Explain **any three** factors which are said to have exacerbated Africa’s debt crisis**.**

*(6 marks)*

1. One of the policy prescriptions by International Financial Institutions to countries facing balance of payments problems is currency devaluation. Explain how currency devaluation can lead to the improvement of the current account of balance of payments of a country. *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Explain **three** approaches used in the calculation of Gross Domestic Product (GDP). *(6 marks)*
2. Differentiate between Gross Domestic Product (GDP) and Gross National Product(GNP). *(3 marks)*
3. Even though GDP is touted to be an indicator of an economy’s economic growth, it is not without shortfalls. Explain any **three** shortfalls of GDP. *(6 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Explain any **two** functions of the gold standard. *(4 marks)*
2. Discuss any **two** problems associated with the classical gold standard.*(6 marks)*
3. Assume country X is practicing a floating exchange rate system, with the aid of a demand and supply diagram, explain what will happen to the country’s currency in the following scenarios:
4. Interest rates in country X rise relative to elsewhere.*(5 marks)*
5. Inflation in country X is higher than elsewhere. *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Explain the use of Balance of Payments( BOP)*(4 marks)*
2. Table 3 shows transactions of country X with the rest of the world. Study it and use it to answer questions that follow:

**Table 3: Transactions of Country X with the Rest of the World**

|  |  |
| --- | --- |
| Transaction | Amount in US$(Billion) |
| Export of Goods | 1,068.5 |
| Export of Services | 502.3 |
| Import of Goods | 1,575.4 |
| Import of Services | 370.3 |
| Income Receipts | 588.2 |
| Income Payments | 466.8 |
| Capital Payments to Foreigners | 10 |
| Capital payments to Nationals | 2.1 |
| Foreign Assets Held in Country X | 52.3 |
| Assets for Country X Held Abroad | 2.0 |

1. Calculate the current account balance for country X. *(5 marks)*
2. Compute the capital account balance for country X. *(5 marks)*
3. Compute the Balance of Payments for country X. *(6 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Assuming the Purchasing Power Parity (PPP) holds such that the Kwacha/Dollar exchange rate is given as:



You are required to predict what will happen to the exchange rate:

1. When the central bank of Malawi invokes an expansionary monetary policy.

*(5 marks)*

1. When interest rates on the Malawi Kwacha-denominated assets rises.

*(5 marks)*

1. When national income in Malawi rises.  *(4 marks)*
2. Explain any **three** effects of lack of liquidity for a country. *(6 marks)*

**(Total 20 marks)**

**QUESTION 8**

After experiencing an economic downturn, Malawi was advised by the IMF to devalue its currency and float it.

**Required:**

1. Define a floating exchange rate system. *(2 marks)*
2. Explain any **two** advantages and **two** disadvantages of applying a floating exchange rate system to an economy. *(8 marks)*
3. When does interest rate parity come into play? *(2 marks)*
4. Outline any **two** effects of liberalizing the financial markets. *(4 marks)*
5. Discuss any **two** implications of capital flight on a developing country**.** *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**