

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INTERNATIONAL MONETORY ECONOMICS (IOBM AD 302)**

**Date: Sunday, 22nd November 2020**

**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**

Every country in the world has gold reserves with which the stores of value are measured. As a yardstick, gold was formalized in the currency system adopted by Europe and America from the middle of the nineteenth century until 1914 - the gold standard.

Malawi’s gold reserves averages 0.4 metric tonnes per year as presented in the table below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Malawi Trade** | **Last** | **Previous** | **Highest** | **Lowest** | **Unit** |
| [Balance of Trade](https://tradingeconomics.com/malawi/balance-of-trade) | -101999 | -96179.3 | 4926 | -133669.2 | MWK Million |
| [Current Account](https://tradingeconomics.com/malawi/current-account) | -1115.3 | -1022 | -4.38 | -1216.52 | USD Million |
| [Current Account to GDP](https://tradingeconomics.com/malawi/current-account-to-gdp) | -10.5 | -13.5 | -0.25 | -25.1 | percent |
| [Imports](https://tradingeconomics.com/malawi/imports) | 173284 | 177726 | 187822.2 | 1055.7 | MWK Million |
| [Exports](https://tradingeconomics.com/malawi/exports) | 71285 | 81546 | 97429 | 617.7 | MWK Million |
| [Capital Flows](https://tradingeconomics.com/malawi/capital-flows) | 755.52 | 638.97 | 1375.92 | 87.58 | USD Million |
| [Gold Reserves](https://tradingeconomics.com/malawi/gold-reserves) | 0.4 | 0.4 | 0.4 | 0.4 | Tonnes |
| [Terrorism Index](https://tradingeconomics.com/malawi/terrorism-index) | 0.46 | 0 | 0.46 | 0 |  |
| [Foreign Direct Investment](https://tradingeconomics.com/malawi/foreign-direct-investment) | 458.9 | 317.7 | 1128.25 | -52.3 | USD Million |
| [External Debt](https://tradingeconomics.com/malawi/external-debt) | 1486661.76 | 1334560 | 1486661.76 | 980.6 | MWK Million |

Source: <https://tradingeconomics.com/malawi/gold-reserves>

**Required**

What role did the gold standard play in the economy? (*4 marks*)

**(Total 15 marks)**

**QUESTION 2**

Over the years of its existence, the IMF's way of operations has undergone rapid change as it has sought to adapt to the changing needs of its expanding membership in a globalized world economy.

**Required**

Discuss any **five** functions that IMF is playing in its current set-up. (**Total** **15 marks**)

**QUESTION 3**

Study the table 1 below that shows Malawi’s production figures as well as export and import figures.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Line | Particulars | 2012 | | | | 2013 |
| I | II | III | IV | I |
| 1 | **Gross domestic product** | 15,478 | 15,586 | 15,811 | 15,864 | GDP |
| 2 | **Personal consumption expenditures** | 11,007 | 11,067 | 11,154 | 11,250 | C |
| 3 | Goods | 3,756 | 3,742 | 3,793 | 3,843 | 3,873 |
| 4 | Durable goods | 1,205 | 1,200 | 1,219 | 1,252 | 1,274 |
| 5 | Nondurable goods | 2,551 | 2,541 | 2,574 | 2,591 | 2,599 |
| 6 | Services | 7,251 | 7,326 | 7,362 | 7,407 | 7,500 |
| 7 | **Gross private domestic investment** | 2,032 | 2,042 | 2,080 | 2,095 | I |
| 8 | Fixed investment | 1,960 | 1,987 | 1,998 | 2,072 | 2,103 |
| 9 | Nonresidential | 1,596 | 1,614 | 1,610 | 1,666 | 1,677 |
| 10 | Structures | 455 | 459 | 460 | 480 | 478 |
| 11 | Equipment and software | 1,141 | 1,155 | 1,150 | 1,186 | 1,200 |
| 12 | Residential | 364 | 373 | 388 | 407 | 425 |
| 13 | Change in private inventories | 73 | 55 | 82 | 23 | 48 |
| 14 | **Net exports of goods and services** | -616 | -577 | -517 | -530 | X − M |
| 15 | Exports | 2,158 | 2,189 | 2,199 | 2,191 | 2,204 |
| 16 | Goods | 1,526 | 1,551 | 1,555 | 1,540 | 1,546 |
| 17 | Services | 632 | 638 | 644 | 651 | 658 |
| 18 | Imports | 2,774 | 2,765 | 2,716 | 2,721 | 2,747 |
| 19 | Goods | 2,324 | 2,312 | 2,261 | 2,270 | 2,287 |
| 20 | Services | 449 | 453 | 455 | 451 | 460 |
| 21 | **Government expenditures** | 3,055 | 3,054 | 3,093 | 3,050 | G |
| 22 | Federal | 1,208 | 1,211 | 1,241 | 1,197 | 1,177 |
| 23 | National defense | 806 | 808 | 835 | 788 | 769 |
| 24 | Nondefense | 401 | 403 | 407 | 409 | 409 |
| 25 | State and local | 1,847 | 1,843 | 1,852 | 1,852 | 1,846 |

**Required**

Calculate Malawi’s Gross Domestic Product for 2013.  **(Total 15 marks)**

**QUESTION 4**

Lesotho is a country that is surrounded by South Africa. Apparently, it also happen to have a closed as follows:

Y=C+I+G

C=175+0.55Yd

I=5500

G=1250

Y presents Lesotho’s national income, C, I and G is the consumption, investment and government expenditure. Yd is disposable income and the tax rate (t) on income in the economy is 20 percent.

**Required**

1. Calculate the equilibrium level of national income for Lesotho. (*10 marks)*
2. Calculate the value of the multiplier for this economy (5 *marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Differentiate between financial liberalization and trade liberalization. *(4 marks)*
2. Discuss any **four** factors which determines the demand and supply of the Malawi Kwacha. *(16 marks)*

**(Total 20 marks)**

**QUESTION 6**

The gold standard is a system in which international currencies are tied to a specific amount of gold. However, it has been affected by a number of challenges that led to its abandonment.

**Required**

Discuss **five** problems associated with the Gold Standard. **(Total 20 marks)**

**QUESTION 7**

1. Describe the following terms in International Monetary Economics Gross Domestic Product, Gross National Product, Net Domestic Product and Aggregate Demand.

*(8 marks)*

1. Explain why Balance of Payments are used as an economic indicator. (*2 marks)*
2. Describe the components of the Balance of Payments giving examples **for each** component. *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

Malawi, just like other developing countries, has over the years been affected by the financial crisis.

**Required**

Discuss **two** such challenges that Malawi has faced in relation to the Global Imbalance and Economic Growth. **(Total 20 marks)**

**END OF THE EXAMINATION PAPER**