

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INTERNATIONAL MONETORY ECONOMICS**

**(IOBM -AD302)**

**Date: Sunday, 13th May 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**

Tumbaland is a landlocked country whose economy has over the years been faced with a number of challenges ranging climate change to hyperinflation. The IMF was to determine the real GDP for Tumbaland before any support is provided. The following is the production for the Tumbaland as of 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Year 2005 | | Year 2017 | |
| PRODUCT | QUANTITY  (‘000kgs) | PRICE  (K’000) | QUANTITY  (‘000kgs) | PRICE  (K’000) |
| Tobacco | 80 | 40 | 100 | 50 |
| Tea | 90 | 11 | 80 | 10 |
| Cotton | 15 | 90 | 20 | 100 |
| Sugar | 50 | 25 | 30 | 50 |
| Rice | 60 | 15 | 45 | 120 |

**Required:**

Use the information in the table to compute the Real GDP for the year 2017, assume the base year is 2005. *(12 marks)*

1. Identify the Output/Production Approach in the context of the following;
2. Its methodology for measurement of GDP *(1 mark)*
3. The major weakness with this approach *(1 mark)*
4. The methodology used to address such weakness in (ii) above.

*(1 mark)*

**(Total 15 marks)**

**QUESTION 2**

The international Monitory Funds (IMF) is an organization of 189 countries working to foster global monitory cooperation among other functions. As a country, explain **three** ways through which a developing country would benefit from the objectives of IMF.  *(6 marks)*

There are three main more widely implemented loan facilities by which IMF can lend its money under Poverty Reduction and Growth Trust to countries across the world. Clearly, name and define these **three** loan facilities. *(9 marks)*

**(Total 15 marks)**

**QUESTION 3**

The deep causes of the financial crisis lie in global imbalances and its effects are largely felt among the developing countries, most of whose markets are not stable.

Discuss how the following have been obstacles to the flow of trade among nations:

1. Global Liquidity
2. Global imbalance
3. Economic Growth

**(Total 15 marks)**

**QUESTION 4**

1. Describe the elements of economic growth in developing countries. *(5 marks)*
2. What strategy do developing countries rely on to supplement their liquidity?

*(4 marks)*

1. What are the **three** most important factors that you would consider when measuring the level and rate of growth of national income. *(6 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Capital flight in a country occurs when money rapidly flows out of a country as a result of a number of economic consequences. Discuss any **three** implications of capital flight on a developing economy such as Malawi. *(12 marks)*
2. What are the effects that Malawi is likely to face as a result of Capital Flight?

*(8 marks)*

**(Total 20 marks)**

**QUESTION 6**

Discuss how the following factors influence the demand and supply of a currency.

1. Inflation *(5 marks)*
2. Interest rates *(5 marks)*
3. Speculation *(5 marks)*
4. Change in competitiveness *(5 marks)*

**(Total 20 marks)**

**QUESTION 7**

Currency depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system in which no official currency value is maintained. Discuss **five** reasons for a currency deprecation. **(Total 20 marks)**

**QUESTION 8**

A gold standard is a monetary system in which the standard economic unit of account is based on a fixed quantity of gold. As the moment, most countries abandoned the gold standard as basis of their monetary system although they may hold substantial gold reserves. Describe **five** problems associated with Gold Standard that led to the abandonment of the system. **(Total 20 marks)**

**END OF EXAMINATION PAPER**