

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

PROGRAMMES: BSc ECONOMICS

EC402: ADVANCED ECONOMIC THEORY 2

DURATION: 3 HOURS

MAR 2024

INSTRUCTIONS:

1. Answer question 1 and any other three.
 2. Each question carries 25 marks.
 3. NO CELLPHONES ALLOWED IN THE EXAMINATION ROOM.
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Question 1 (COMPULSORY)

‘A government can lie to its citizens and the world at large about its policy intentions and or policy performance at least in the short run, however time inconsistency is the major threat to such lying and misleading policymakers.’ Citing practical empirical examples from Zimbabwe evaluate the relevance of dynamic inconsistency to economic policymaking in developing countries. (25 marks)

Question 2

‘Early and correct diagnosis of economic problems is the most important stage of macroeconomic policymaking. Discuss the validity of this statement giving practical empirical examples from Zimbabwean policy performance. (25 marks)

Question 3

- a) Show how a short run Phillips curve can be achieved in an economy whose economic agents have rational expectations. **(15 marks)**
- b) Explain the major reasons why policymakers may set economic targets highlighting why some policymakers might be reluctant to set them. **(10 marks)**

Question 4

Critically evaluate the three broad categories of macroeconomic policy instruments available to policymakers in Zimbabwe to achieve macroeconomic objectives paying attention to the assignment problem. **(25 marks)**

Question 5

Explain 5 major reasons why policymakers in developing countries normally rely on fiscal policy over monetary policy in stabilising the economy suggesting actions that could improve the efficacy of monetary policy in these economies. **(25 marks)**

Question 6

‘As developing countries, debt is one of the main inhibitors of economic development. How can we be expected to develop when at least 25% of the cake that we bake with our limited resources finds its way to the rich countries in the name of loan service?’ Explain why developing countries always find themselves with exploding debt burden. **(25 marks)**

END OF PAPER