

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

PROGRAMMES: BSc ECONOMICS HONOURS

EC 402: ADVANCED ECONOMIC THEORY II

DURATION: 3 HOURS

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)

‘Africa's external debt burden has contributed to the deepening crisis characterized by a decline in industrial output, poor export performance, and deteriorating social indicators, institutions and the environment’

- a) In light of this assertion explain how external debt could affect economic development both in the short and the long run (14 marks)
- b) Explain why African countries ended up in a debt crisis. (11 marks)

Question 2

The New classical school has gained so much ground in recent years and most policymakers are using it as the basis of their macroeconomic policy management.

- a) Discuss the main tenets of the New Classical School and appraise its applicability to Zimbabwe's economic climate. (18 marks)
- b) Why would developing countries' policymakers shun policy prescriptions of the New Classical School? (7 marks)

Question 3

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

Question 4

'Political corruption has surpassed most economic problems in developing countries because corrupt policymakers will never really thrive to eradicate corruption from which they feed, in fact, as economists focus more on role of corruption on economic growth, endogenous growth models have become more empirically sound than their resource based counterparts. Discuss.

(25 marks)

Question 5

Suppose a policymaker seeks to undertake monetary stabilisation of prices in an economy like Zimbabwe.

- a) Discuss how he could choose the policy instruments to use and the factors that he would consider when choosing the intermediate targets. (13 marks)
- b) Why might a policymaker fail to use instruments that are at his disposal? (12 marks)

Question 6

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

END OF PAPER