

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give extra time.

1) (14 points) For EITHER open market operations OR the required reserve ratio, explain how the central bank can use it to increase the money supply.

2) (14 points) Answer EITHER Part A OR Part B.

A) Most developing countries have pegged exchange rates. What is the advantage of that system for them? Explain your logic.

B) M-Pesa is a service which allows anybody with a cell phone to pay others. It started in Kenya in 2007 and is several countries in Africa, plus Romania, India, and Albania. Last December, it handled 614 million transactions and 6 billion transactions in 2016. Most of the people using it did not have bank accounts prior to using it. Use logic and terminology from this course to explain how “2% of Kenyan households lifted out of extreme poverty through access to mobile money services.” (CNN’s story citing an MIT study.) <http://www.cnn.com/2017/02/21/africa/mpesa-10th-anniversary/index.html>.

3) (16 points) Answer EITHER Part A OR Part B.

A) What is meant by *refinancing debt*? How does it help both the debtor and the lender?

B) One of the possible ways to stop a financial crisis is for the government to borrow foreign exchange from the IMF or a similar organization. How would that help to stop the crisis?

4) (18 points) For EITHER NPV debt/revenue > 200% OR debt service to revenue > 10% , tell me if this is a problem of illiquidity or insolvency. Explain your logic including how a number higher than those given are a problem. Also tell me if it is an external transfer problem or an internal transfer problem and why you chose that.

5) (18 points) Answer EITHER Part A OR Part B.

A) Putting conditions (which must be met before aid is given) can be good for the recipient country and it can be bad for them. Explain how a condition on aid can help the recipient country. Mention a specific condition which might help them and explain how it helps them.

B) Many economists feel that under certain circumstances, aid to a developing country can make the country worse off. Give an example, real or theoretical, where the aid made the country worse off and explain how it made them worse off.

6) (20 points) Answer EITHER Part A OR Part B.

A) Draw the EB/IB Phase Diagram. Put a point on the downward sloping line, below/right of the equilibrium. Is that a trade deficit, trade surplus, high inflation, or high unemployment? Explain your logic.

B) Draw the EB/IB Phase Diagram. Explain why the IB curve takes its shape.