

UNIVERSITY OF FORT HARE

EAST LONDON CAMPUS

ECF511E – Macroeconomics, Policy & the Financial Markets 2023

HONOURS FINAL EXAMINATIONS

Time: 3 Hours
Mark: 100
Internal Examiner: Prof A Tsegaye
External Examiner: Dr S Khumalo

Instruction:

- a) There are SIX questions. You may answer any FOUR questions.
- b) All questions carry equal marks.

QUESTION 1

Total Mark (25%)

With reference to savings and economic growth, answer the following:

- a) Critically explain the Neoclassical (Solow) growth theory view that a higher savings rate can lead to faster economic growth, but only in the short run. (13 marks)
- b) Is it possible for South Africa to follow the above -stated policy prescription for economic growth, which is raising the savings rate, given its current economic circumstances? Explain your answer. (12 marks)

QUESTION 2

Total Mark (25%)

- a) Discuss the importance of innovative technology, research, and development in fostering economic growth from a theoretical perspective(s), and comment. (13 marks)
- b) Explain the lesson(s) that South Africa could draw from the experiences of the Asian Tigers in enhancing economic growth through technology and other factors. (12 marks)

QUESTION 3

Total Mark (25%)

With reference to Pagano's AK type growth model, answer the following:

- a) Explain the similarity and or differences, if any, between Pagano's model and mainstream growth theories in explaining the influences of financial system on economic growth. (13 marks)
- b) Consider the relevance of Pagano's growth model to assess the influence of financial intermediaries on economic growth in South Africa. (12 marks)

QUESTION 4**Total Mark (25%)**

In the economic literature on growth-finance nexus, there has been a debate over developing a country's financial system, either through a market based or bank-based system.

With reference to this debate:

- a) Discuss, the arguments for a market versus bank based financial system, taking account of the empirical evidence on this matter. (13 marks)
- b) Discuss the appropriateness/inappropriateness of labelling South Africa as having a predominantly market based financial system. (12 marks)

QUESTION 5**Total Mark (25%)**

- a) According to Minsky's financial instability hypothesis, financial crises reflect a weakness of the system of financial regulation and oversight. Discuss this view. (13 marks)
- b) Explain how SARB maintains financial stability (such as overcoming bank failures) and sound macroprudential policy in SA. (12 marks)

QUESTION 6**Total Mark (25%)**

"The period since the early 1980s has been characterized by extraordinary fluctuations in the prices of goods, foreign exchange, housing, and shares resulting in four main financial crises. These are the Latin American crisis of the early 1980s; the Japanese crisis of the early 1990s; the East Asian crisis of mid-1997; and the global financial crisis of 2007-2008 and the subsequent Euro debt crisis" (Ravinder and Malindi, 2014)

Taking account of the above statement, answer the following:

- a) Distinguish the relationship between: Growth and crises; Bubbles and crises; Contagion, financial fragility, and growth. (15 marks)
- b) Explain how South Africa has fared in a global financial crisis situation, such as the 2007-2008 global financial crisis. (10 marks)

END OF EXAMINATION PAPER