

**UNIVERSITY OF SWAZILAND**

**FINAL EXAMINATION: 2005**

**TITLE OF PAPER: MONETARY ECONOMICS**

**COURSE CODE: ECON 401**

**TIME ALLOWED: 3 HOURS**

- INSTRUCTIONS:**
- 1. ANSWER FOUR QUESTIONS:  
TWO FROM SECTION A AND  
TWO FROM SECTION B**
  - 2. ALL QUESTIONS CARRY  
EQUAL MARKS OF 25 EACH**

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BEEN GRANTED BY THE INVIGILATOR**

**Section A****Question 1**

- (a) With the aid of algebra, derive the money multiplier and explain the link between money supply and high-powered money. (15 marks)
- (b) With reference to (a) above, explain fully how you expect the decrease from 3% to 2.5% in the reserve requirement ratio in Swaziland will affect money supply. (5 marks)
- (c) Discuss the consequences of financial development for the magnitude of the multiplier. (5 marks)

**Question 2**

- (a) In the inventory-theoretic model, the transactions demand for money is said to be also interest elastic. Discuss using diagram(s) and algebra. (20 marks)
- (b) Briefly discuss the major alternatives to money holding as identified by Friedman. (5marks)

**Question 3**

- (a) Explain the effects of financial repression on economic growth and suggest policies for financial liberalisation. (20 marks)
- (b) Outline the differences between the prior savings approach and the Keynesian approach to the finance of development. (5 marks)

**Question 4**

- (a) Briefly outline the theory of optimum currency area. (10 marks)
- (b) Critically examine the advantages and disadvantages of Swaziland's membership to the Common Monetary Area (CMA). In your view is it beneficial for Swaziland to continue being a member of the CMA or she should opt out? (15 marks)

**Section B****Question 5**

- (a) Set out the main elements of the Mundell-Fleming model and explain the economics underlying the balance for official financing schedule of the model. (15 marks)
- (b) Using the model in (a) above, discuss the functioning of an expansionary fiscal policy under both fixed and flexible exchange rate systems. (10 marks)

**Question 6**

- (a) Outline the major assumptions of the Polak-Boissonneault (PB) model. (5 marks)
- (b) Based on (a) above, set out the PB model and explain the major conclusions of the model. (12 marks)
- (c) What are the limitations of the PB model with respect to developing countries? (8 marks)

**Question 7**

- (a) Explain the difference between the following:  
(i) Primary and secondary markets  
(ii) Money and capital markets  
(iii) Debt and equity markets (4 marks each)
- (b) Discuss the major advantages attributable to the operations of a stock exchange. (13 marks)

**Question 8**

- (a) Distinguish between real exchange rate appreciation and depreciation under conditions of perfect capital mobility. (10 marks)
- (b) How would monetary policy affect output, interest rate and the real exchange rate under conditions of perfect capital mobility and flexible exchange rate system? (15 marks)