UNIVERSITY OF SWAZILAND

SUPPLEMENTARY EXAMINATION: 2006

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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Section A

Question 1

Outline the main objectives and instruments of monetary policy in developing countries. Discuss the relevance of these instruments to Swaziland in the light of her membership to the Common Monetary Area (CMA). (25 marks)

Question 2

According to the multiplier model, the supply of money (M) is determined as:

$$M = [(1+c)/(r+c)]H$$

where H : reserve or high-powered money
c : cash-deposit ratio
r : reserve deposit ratio

(a)   Examine in detail the practical usefulness of this approach to the measurement of broad money supply (M2) in Swaziland. (15 marks)

(b)   Compute the size of the multiplier and analyse the economic consequences when r=0.4 and c=0.6. (5 marks)

(c)   Discuss the consequences of financial development for the magnitude of the multiplier. (5 marks)

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)   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. (5 marks)

Section B

Question 5

(a)   Set out the main elements of the Mundell-Fleming model and explain the economics underlying the foreign balance schedule of the model.

(15 marks)

(b)   Using the model in (a) above, discuss the functioning of an expansionary monetary policy under both fixed and flexible exchange rate systems.

(10 marks)

Question 6

(a)   Outline the major assumptions of the Polak-Boissonneult (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

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?   (25 marks)

Question 8

(a)   The Central Bank of Swaziland is trying to find ways of making the stock market active in the country. Why do you think it is important to have this market?   (19 marks)

(b)   What do you think would be the disadvantages of having it?   (6 marks)