

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS

MAIN EXAMINATION
MAY 2008

TITLE OF PAPER: MONETARY ECONOMICS

COURSE CODE: ECON 401

TIME ALLOWED: THREE (3) HOURS

- INSTRUCTIONS:**
- 1. ANSWER FOUR (4) QUESTIONS:
TWO (2) FROM SECTION A AND TWO
FROM SECTION B.**
 - 2. ALL QUESTIONS CARRY EQUAL
MARKS OF 25 EACH.**

**THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS
BEEN GRANTED BY THE INVIGILATOR.**

SECTION A

QUESTION 1

- a) Give a detailed outline of the objectives/goals of monetary policy in developing countries. (12)
- b) What instruments does the central bank use to attain the goals discussed in (a) (9)
- c) What is the relevance of the instruments mentioned in (b) to Swaziland in light of her membership to the Common Monetary Area (CMA). (4)

QUESTION 2

- a) Suppose that money supply in Swaziland is defined by M2. Derive the money multiplier for the Swazi economy and show how it is related to money supply.(10)
- b) How is the monetary base related to money supply? (5)
- c) Discuss the factors that might make the money multiplier analysis inappropriate to Swaziland? (10)

QUESTION 3

Compare and contrast the Classical quantity theory of money with the Keynesian liquidity preference theory of money demand. (25)

QUESTION 4

- a) Outline the theory of Optimum currency area (OCA). (10)
- b) Discuss the major characteristics of an Optimum currency area (15)

SECTION B

QUESTION 5

- a) Economists seem to agree that there is a link between financial sector development (FSD) and the economic growth of an economy. Provide a detailed discussion of both the theory and empirical evidence of this link. (20)
- b) Discuss briefly the direction of causality between FSD and economic growth. (5)

QUESTION 6

- a) What are the main objectives of the establishment of the central bank of Swaziland? (10)
- b) One notable feature of the commercial banking system in Swaziland is the excess liquidity. What are the implications of this problem for Swaziland? (5)
- c) What are the factors that have contributed to the excess liquidity in the banking system of Swaziland? (10)

QUESTION 7

Provide an outline of the effectiveness of expansionary monetary and fiscal policy with perfect capital mobility under a flexible exchange rate regime. (25)

QUESTION 8

Write short explanatory notes on the following concepts: (5 marks each)

- i) Trade balance
- ii) A stock broker
- iii) Bond market
- iv) Functions of Swaziland Stock Exchange (SSX)
- v) Benefits of investing in a stock exchange