

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS

MAIN EXAMINATION
MAY 2009

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 (2) FROM SECTION B.**
 - 2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH.**

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

SECTION A

QUESTION 1

- a) What are the benefits enjoyed by the monetary economy which are not available to the barter economy. (10)
- b) Provide a clear description of the evolution of money or pricing system. In which stage of the evolution is your country? (15)

QUESTION 2

Outline the objectives and instruments (tools) 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)

QUESTION 3

Compare and contrast the Keynesian liquidity preference theory of money demand with Friedman's model of money demand. Discuss the empirical evidence on the demand for money. (25)

QUESTION 4

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

- i) The main theory behind an optimum currency area.
- ii) Differentiate between the Rand monetary area (RMA) and the Common Monetary Area (CMA).
- iii) Openness to trade as one characteristic of an optimum currency area.
- iv) Degree of factor mobility as a characteristic of an optimum currency area.
- v) In your opinion should Swaziland continue being a member of the CMA or should she opt out?

SECTION B

QUESTION 5

- i) Define financial repression. (3)
- ii) Explain why there is financial repression in many developing countries? (18)
- iii) What could be a solution for financial repression? (4)

QUESTION 6

Discuss the main characteristics of the informal financial sector in LDCs. What are the implications of this sector on the performance of monetary policy? (25)

QUESTION 7

Provide an outline of the effectiveness of the monetary and fiscal policies with immobile capital under the fixed and flexible exchange rate regimes. (25)

QUESTION 8

- i) In the Times of Swaziland it was reported that government has invested capital amounting to E700 million in foreign banks. The governor of the Central Bank of Swaziland later issued a press statement clarifying that his bank was not involved in transferring such a large amount of capital. As a monetary economist explain how such an action by government would affect the balance of payment of the country? (10)
- ii) Differentiate between the fixed exchange rate system and a flexible exchange rate system. (5)
- iii) The Central bank governor announced that interest rates have increased from 8% to 12% over the past twelve months. How will this increase affect commercial banks, borrowers and depositors? (10)