

**UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS**

MAIN EXAMINATION

MAY 2010

TITLE OF THE 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) How does high and accelerating inflation change the value of money? How does it change the usefulness of money as a medium of exchange? (10)
- b) What is a payment/pricing system? How has it evolved over time? In which stage of the pricing system is your country? (15)

QUESTION 2

- a) During the Great Depression years 1930 -1933, the currency deposit ratio C_r and the excess reserve ratio $e(R)$ rose dramatically. What do you think happened to money supply? Why? (5)
- b) How does high-powered money or the monetary base establish a relationship between the supply of money (M2) and the activities of the banking public, non-banking public and monetary authorities? (15)
- c) Do you feel that the ability of the commercial banks in Swaziland to extend credit (offer loans) is limited by the size of the multiplier in (b) above? (5)

QUESTION 3

- a) Discuss the major contributions of Keynes to the theory of the demand for money. (10)
- b) What constitute the major addition or subtraction of Milton Friedman to or from the Keynesian approach to the theory of money demand? (15)

QUESTION 4

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

- a) The difference between the Rand Monetary area (RMA) and the Common Monetary Area (CMA).
- b) Openness to trade in an Optimum Currency Area (OCA).
- c) Degree of factor mobility in an OCA
- d) Similarities in business cycles in an OCA
- e) Monetary Policy sovereignty

SECTION B

QUESTION 5

Discuss the major functions provided by financial institutions to the economy. Clearly show how each one of these functions affect a country's economic growth. (25)

QUESTION 6

Clearly outline the advantages and disadvantages of listing in the Swaziland Stock Exchange. (25)

QUESTION 7

- a) Explain why monetary policy is ineffective in an open economy with capital mobility and a fixed exchange rate system? (10)
- b) Derive the balance of payment curve (BP). Why is it positively sloped? What influences its slope? And what factors can cause it to shift? (15)

QUESTION 8

- a) Why is inflation of concern to government? Outline the measures which can be taken to control it? (15)
- b) How can the Central bank of Swaziland's desire to prevent high interest rates lead to inflation? Discuss. (10)

*****GOOD LUCK!!!*****