

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

**MAIN EXAMINATION**

**MAY 2011**

**TITLE OF PAPER: MONETARY ECONOMICS**

**COURSE CODE: ECON 401**

**TIME ALLOWED: THREE (3) HOURS**

**INSTRUCTIONS: 1. ANSWER QUESTION ONE AND ANY  
OTHER QUESTION IN SECTION A.**

**2. ANSWER QUESTION FOUR AND ANY OTHER  
QUESTION IN SECTION B**

**3. START EACH QUESTION ON A NEW PAGE.**

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GRANTED BY THE CHIEF INVIGILATOR.**

## SECTION A

### QUESTION 1 (COMPULSORY) TOTAL MARKS (30)

- a) Discuss the six goals of monetary policy. Indicate the importance of each of these goals in your discussion. (18 marks).
- b) Monetary authorities face challenges as they pursue the goals alluded to in part a) above. Do you agree? Explain using examples. (8 marks).
- c) Monetary economics is related to both macroeconomics and microeconomics. Explain. (4 marks)

### Question 2

- a) Outline the four main players in the money supply process. (4 marks)
- b) Suppose you are given the following information: monetary base (B) is  $C_p + C_b + D_b$  and the broad money supply (M) is  $C_p + D_p$ .
  - (i) Define each of these variables (3 marks)
  - (ii) State the ratio of money supply to the monetary base. Note that  $C_b + D_b = R$ . (3 marks).
  - (iii) Define and state the cash ratio and reserve ratio. (4 marks)
- c) Using the information in parts a) and c) above to show that  $M = Bm$ , where m is the money supply multiplier. (6 marks)

56

### Question 3

- a) Discuss Friedman's quantity theory of money. State the equation and define all the variables. Highlight how this theory differs from that of Keynes. (15 marks)
- b) Outline the three main tools of monetary policy. (5 marks)

## Section B

### Question 4 (COMPULSORY) TOTAL 30 MARKS

- a) List any four monetary-policy regimes. Outline the pros and cons of inflation targeting. (10 marks).
- b) Delineate any **two** essential features of an OCA. Is the CMA an OCA? Explain your answer. (5 marks)
- c) Highlighting the origins of the 2007 global financial crisis, discuss how the crisis has affected developing economies, particularly in Africa. Use of appropriate terminology is essential. (10 marks).
- d) Summarize the main features of the CMA in Southern Africa. (5 marks)

### Question 5

- a) Theoretically there is a positive link between financial development and economic growth. Briefly explain this link. Does the empirical evidence support this view? Discuss. (10 marks)
- b) The financial sector in most developing countries is divided into two sectors. Explain. (5 marks)
- c) Elucidate how the informal financial sector impacts the conduct of monetary policy in a country. Use the Swaziland case in your answer. (5 marks)

**Question 6**

- a) Discuss three main causes of financial instability. (10 marks)
- b) Describe the role of international organizations and monetary policy in the maintenance of financial stability. (10 marks)