

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

SUPPLEMENTARY EXAMINATION

JULY 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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SECTION A

Question 1 COMPULSORY TOTAL 30 MARKS

- a) Financial instruments can be divided into two main classes. Explain. (5 marks)
- b) Delineate monetary economics. Why is it important to study it? (5 marks)
- c) Define financial intermediaries. Why are they important? Be sure to discern between adverse selection and moral hazard. (5 marks)
- d) Outline the functions of money. How does it encourage specialization? (5 marks)
- e) Summarise the evolution of the payments system. (10 marks)

Question 2

- a) Given that money supply $M = Bm$ and $m = \frac{\alpha + 1}{\alpha + \beta}$ where B is the monetary base and m is the money supply multiplier, α is the cash ratio and β is the reserve ratio.
 - (i) Outline the factors that influence α and β . (10 marks)
 - (ii) Why do banks hold free reserves? (2 marks)
 - (iii) Is the money supply determined endogenously or exogenously? Support your answer. (5 marks)
 - (iv) Name the four players in the money supply process. (3 marks)

Question 3

- a) Discuss Keynes' liquidity preference theory. State the money demand function and define all the variables (10 marks)
- b) According to Keynes' theory velocity is constant. Do you agree? Support your answer. (5 marks)
- c) How is Keynes' theory different from Tobin's money demand analysis? (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) Discuss the main arguments in the finance-growth nexus based on Levine (2003) (10 marks)
- b) Discuss the empirical evidence on the finance-growth nexus. (5 marks)
- c) Outline the structure of the financial system in Swaziland. (5 marks)

Question 6

- a) Distinguish between dollarization and a currency board. (5marks)
- b) Enumerate the advantages and disadvantages of dollarization and a currency board. (10 marks)
- c) Is the CMA a currency board? Explain your answer. (5 marks)