

**UNIVERSITY OF SWAZILAND  
FACULTY OF SOCIAL SCIENCE  
DEPARTMENT OF ECONOMICS  
MAIN EXAMINATION 2012**

**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 MARKS (30 )

- a) Discuss, in detail the main tools of monetary policy in Swaziland. (10 marks)
- b) Outline the main features of the CMA. How does Swaziland's membership in this arrangement impact the Central Bank's ability to use monetary policy as an effective tool for stabilization purposes. (15 marks)
- c) Discuss the short term interest rate channel of the monetary transmission mechanism. (5 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  $C_b + D_b$  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  $R = C_b + D_b$  (3 marks).
  - (iii) Delineate and specify the cash ratio and reserve ratio. (4 marks)
- c) Using parts (a) and (c) above show that  $M = Bm$  where m is the money supply multiplier. (6 marks)

### Question 3

- a) Some studies on the stability of the money demand function have found that it is unstable . What reasons have been cited in these studies as likely causes of this instability? (10 marks)

- b) . Discuss the nature and structure of the banking system in Swaziland. Outline the challenges the sector is facing as a result of the fiscal and financial crisis that the country is facing. (10 marks)

## Section B

### Question 4 (COMPULSORY) TOTAL 30 MARKS

- a) "A number of factors in particular make it extremely difficult to determine the precise course of events in the monetary-policy transmission mechanism". Discuss these factors. (10 marks)
- b) Elucidate the OCA criteria. In your opinion, does the CMA form an OCA? Support your answer (10 marks)

### Question 5

- a) Describe the "finance growth nexus" (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) Outline three main causes of financial instability. (10 marks)
- b) International organizations and monetary policy play a pivotal role in the maintenance of financial stability. Explain (10 marks)