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

SUPPLEMENTARY 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 30 MARKS

- a) Outline how the payment system has evolved over time. (5 marks)
- b) Delineate monetary economics. Why is it important to study it? (5 marks)
- c) Financial intermediaries play a pivotal role in the financial system of any country. Explain. (10 marks)
- d) Describe the buffer stock approach to the demand for money. (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

Write short notes on each of the following:

- a) Coupon and discount bonds
- b) Motives for holding money
- c) Keynes' view on money's velocity of circulation
- d) Functions of the foreign exchange market
- e) Relative and absolute purchasing power parity

(5 marks each)

SECTION B

Question 4 COMPULSORY TOTAL 30 MARKS

- a) Discuss the role of expectations in the monetary policy transmission mechanism (5 marks).
- b) Demarcate any **two** essential features of an OCA. (5 marks)
- c) Outline the structure of the financial system in Swaziland. (10 marks).
- d) Why would a depreciation of a currency be expected to be inflationary. (5 marks)
- e) Describe the time inconsistency problem and how it can affect the credibility of say, monetary authorities (5 marks)

Question 5

- a) Describe the short term and long term interest rate channels of monetary policy transmission. Use diagrams (20 marks)

Question 6

- a) Distinguish between a monetary union and a currency board.(10marks)
- b) Enumerate the advantages and disadvantages of a monetary union. Use the European monetary union current experiences to support your points. (10 marks)