

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

TITLE OF PAPER: MONETARY THEORY

COURSE CODE: ECON 402

TIME ALLOWED: THREE (3) HOURS

**INSTRUCTIONS: 1. ANSWER QUESTION ONE AND ANY
OTHER THREE QUESTIONS.**

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GRANTED BY THE CHIEF INVIGILATOR.**

Question 1 (COMPULSORY) TOTAL MARKS (40)

- a) Discuss the main tools of monetary policy in Swaziland. (10 marks)
- b) How does Swaziland's membership in the CMA impact the Central Bank's ability to use monetary policy as an effective tool for stabilization purposes? (5 marks)
- c) Outline the steps that a country must follow when developing a framework for monetary policy. (10 marks)
- d) Discuss any three ways that can be used to group financial markets. (10 marks)
- e) Outline the key elements of inflation targeting. (5 marks)

Question 2

- a) There are four main players in the money supply process. Explain. (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 $R = C_b + D_b$ (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) Why is it important for the government to regulate financial institutions? (5 marks)
- b) Discuss any three forms of regulation that the Central Bank of Swaziland uses to regulate the financial system. (15 marks)

Question 4

- a) Outline the domestic asset price channel of the monetary policy transmission mechanism. (10 marks)
- b) Financial intermediaries fall into three categories. Explain, using examples from Swaziland. (10 marks)

Question 5

- a) Compare a currency board and dollarization. (5 marks)
- b) What are the differences between Friedman and Keynesian theories of money demand? (5 marks)
- c) What arguments are raised on the instability of the money demand function? (5 marks)
- d) Explain the OCA criteria. In some of the journal articles you have read for this course, some authors argue that the OCA criteria are endogenous. Explain this. (5 marks)