

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

**MAIN EXAMINATION**

**MAY 2013**

TITLE OF PAPER: MONETARY POLICY

COURSE CODE: ECON 404

TIME ALLOWED: THREE (3) HOURS

INSTRUCTION: ANSWER QUESTION **ONE** AND ANY  
OTHER **THREE** QUESTIONS

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BEEN GRANTED BY THE CHIEF INVIGILATOR.

### **Question 1 (Compulsory)**

- a) According to Levine (2004), when does financial development occur in an economy? Be sure to highlight the main functions of the financial system as discussed in this journal article. (10 marks).
- b) In your opinion, is there a relationship between price stability and financial stability? Explain your answer. (5 marks).
- c) Describe the costs and benefits of applying direct controls to achieve the ultimate objective of monetary policy. (10 marks)

### **Question 2**

- a) Monetary authorities the world over have working definitions of financial stability. Outline any five elements that are common in most of the definitions of financial stability. (12.5marks)
- b) Outline four ratios used to measure the size of the banking sector in Swaziland. (12.5 marks)

### **Question 3**

- a) Using a graph, describe McKinnon-Shaw model of financial repression. Identify any one shortfall of this model. (12.5 marks).
- b) Based on the main characteristics of financial repression, explain if there is any repression in the financial system in Swaziland. (12.5 marks)

### **Question 4**

- a) "Independence, accountability and transparency have become important institutional arrangements in the implementation of monetary policy". Discuss this statement. Be sure to explain each term clearly in your solution. Show how the Central bank of Swaziland ensures that these institutional arrangements are in place. (25 marks)

### **Question 5**

- a) Why is it important for fiscal and monetary policy to be synchronized in any economy? (5 marks)
- b) Discuss the main arguments raised for and against the application of monetary-policy rules as opposed to the use of discretionary policy (10 marks)

- c) Some countries continue to use exchange rate targeting as their preferred monetary policy regime. Outline the pros and cons of this regime.(10 marks)

**Question 6**

- a) Deliberate on the role and importance of monetary policy operational procedures for the monetary authority. Use examples from the Central bank of Swaziland as much as possible. (15 marks)
- b) What should be the ultimate objective of monetary policy in Swaziland? Explain your view. (10 marks)