

**UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION
MAY 2015**

TITLE OF PAPER: MONETARY POLICY

COURSE CODE: ECON 404

TIME ALLOWED: THREE (3) HOURS

INSTRUCTION: ANSWER ANY FOUR QUESTIONS

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GRANTED BY THE CHIEF INVIGILATOR.**

QUESTION 1

- a) Discuss the role of expectations in the monetary policy transmission mechanism. (5 marks).
- b) Various challenges make it hard to understand the monetary policy transmission mechanism. Outline these challenges. (8 marks).
- c) Discuss the domestic asset price monetary policy transmission channel. (12 marks)

Question 2

- a) Using examples, discern between the short term and long term interest rates. (5 marks)
- b) Outline the advantages of using market oriented measures to achieve the ultimate objective of monetary policy. (5 marks).
- c) Outline the main arguments in favour of a discretionary monetary policy regime. (5 marks)
- d) Outline an exchange rate targeting monetary policy regime. (10 marks)

Question 3

- a) Delineate the macro and micro prudential approaches used to monitor financial conditions in order to safeguard financial stability (10 marks)
- b) Define financial stability. Why is the maintenance of financial stability crucial for the Central Bank of Swaziland. (5 marks)
- c) Describe the Ricardian equivalence proposition and seigniorage. (5 marks)
- d) How do monetary and fiscal policies affect each other? Explain. (5 marks)

Question 4

- a) List any four monetary-policy regimes. Outline the pros and cons of inflation targeting. (10 marks).
- b) Describe any **two** essential features of an OCA. Is the CMA an OCA? Explain your answer. (5 marks)
- c) Explain the various degrees of integration that usually occur before countries form an economic union. (5 marks)
- d) Summarize the main features of the CMA in Southern Africa. (5 marks)

Question 5

- a) Discuss three main causes of financial instability. (15 marks)
- b) Describe the role of international organizations and monetary policy in the maintenance of financial stability. (10 marks)