

**UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
SUPPLEMENTARY EXAMINATION
JULY 2015**

TITLE OF PAPER: MONETARY POLICY

COURSE CODE: ECON 404

TIME ALLOWED: THREE (3) HOURS

INSTRUCTION: ANSWER ANY FOUR QUESTIONS

**DO NOT OPEN THIS PAPER UNTIL PERMISSION HAS BEEN
GRANTED BY THE CHIEF INVIGILATOR.**

Question 1

- a) Discuss the role of expectations in the monetary policy transmission mechanism (5 marks).
- b) Outline any **two** essential features of an OCA. (5 marks)
- c) Distinguish between nominal income targeting and monetary targeting. Be sure to highlight pros and cons of each. (15 marks)

Question 2

- a) Describe the short term and long term interest rate channels of monetary policy transmission mechanism. Use diagrams. (25 marks)

Question 3

- 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.(15 marks)

Question 4

- a) Financial instability is caused by a variety of factors. Discuss. (12.5 marks)
- b) Outline the advantages and disadvantages of exchange rate targeting. (12.5marks)

Question 5

- a) Discuss steps involved in the determination of a monetary policy framework for a country. (15 marks)
- b) Describe the main characteristics of inflation targeting. Use the South African Reserve bank inflation targeting framework to support your answer. (10 marks).