

**UNIVERSITY OF ESWATINI  
FACULTY OF SOCIAL SCIENCES  
DEPARTMENT OF ECONOMICS  
MAIN EXAMINATION PAPER: JUNE 2019**

**TITLE OF PAPER : MONETARY POLICY**

**COURSE CODE : ECO 402/ECON 404**

**TIME ALLOWED : TWO (2) HOURS**

**INSTRUCTIONS :**

- 1. ANSWER QUESTION ONE (1) AND ANY TWO (2) QUESTIONS OF YOUR CHOICE.**
- 2. QUESTION ONE (1) CARRIES FORTY (40) MARKS AND THE OTHER QUESTIONS YOU WILL CHOOSE CARRY THIRTY (30) MARKS EACH.**
- 3. NON PROGRAMMABLE CALCULATORS ARE ALLOWED.**

**THIS QUESTION PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR**

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

- a) Explain why the equilibrium in the balance of payments (BOP) is a goal for monetary policy? (5)
- b) What are intermediate targets? (5)
- c) Discuss the pros and cons of the exchange rate targeting. (10)
- d) Describe the different monetary policy tools used by central banks in the conduct of monetary policy. (5)
- e) Differentiate between the interest rates targeting and the monetary aggregates targeting. (10)
- f) Money supply in Eswatini is said to be 'Indeterminate'. What does this mean? (5)

### **Question 2**

- a) (i) Describe how the exchange rate channel of monetary policy affects output and prices in the short run. (7)  
ii) Assuming sticky prices in the long run, how would a nominal depreciation affect prices, aggregate demand and aggregate supply? (8)
- b) In your opinion, is the channel in (a) above an effective transmission mechanism in Eswatini? Give reasons to support your answer. (5)
- c) (i) Explain why the transmission of monetary is often difficult in developing and transitional economies. (6)  
ii) What policy tools can monetary authorities use in these countries? (4)

### **Question 3**

- a) Explain using a graph why monetary policy is ineffective in an open economy with capital mobility and operating under a fixed exchange rate regime? (15)
- b) Provide an outline of the effectiveness of an expansionary fiscal policy with mobile capital under a fixed exchange rate regime. (15)

### **Question 4**

- a) Critically examine the implications of the kingdom of Eswatini's membership to the Common Monetary Area (CMA). (22)
- b) Does it benefit the country to continue being a member of the CMA or should the country opt out of the CMA? (8)