UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, APRIL 2021

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO 401

TITLE OF PAPER: MONETARY THEORY I

TIME ALLOWED: 2 HOURS

Instructions

1. This paper consists of Section (A) and (B).
2. Section A is compulsory.
3. Answer any two questions from Section B.

Special Requirements

Scientific calculator

*Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must **NOT** write anything else until the start of the examination period is announced.*

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

DO NOT turn examination paper over until instructed to do so.

SECTION A

Question One (Compulsory) **(40 Marks)**

1. (a) With the aid of a diagram, discuss how cost-push inflation arises with an activist policy to promote high employment. In your answer, explain how fiscal and monetary policies contribute to cost-push inflation?
[20]

(b) Discuss the factors that shift the demand curve for bonds. [20]

SECTION B

Answer Any Two (2) of the Following Questions: **(30 Marks Each)**

Question Two **(30 Marks)**

2. (a) Regarding the velocity of money, discuss how Friedman's view differs from that of Keynes? [25]

(b) Distinguish between direct finance and indirect finance. [5]

Question Three **(30 Marks)**

3. (a) Discuss the Keynesian and Monetarists' views on factors that cause the aggregate demand curve to shift. [18]

(b) What impact did the introduction of credit cards have on the velocity of money? [4]

(c) Outline the factors that influence asset demand [8]

Question Four **(30 Marks)**

4. (a) With the aid of a diagram, discuss the effect of an increase in expected inflation on interest rates, using the supply of/ demand for bonds framework. [20]

(b) Define risk structure of interest rates. List and explain the factors which affect the risk structure of interest rates using a supply of/ demand for bonds framework. [10]