"INVESTING IN AFRICA'S FUTURE"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NMEC 405: MONETARY ECONOMICS

END OF SECOND SEMESTER EXAMINATIONS

APRIL 2022

LECTURER: G MANDEWO

DURATION: 3 HOURS

INSTRUCTIONS

Choose and **Answer question number 1 and any other three questions**

Total possible mark is 100

Start each question on a new page in your answer Booklet. Credit will be awarded for logical, systematic and neat presentations

Marks for each question are in parenthesis.

Use of non-programmable calculator is permitted

Best wishes!!

DO NOT TURN THE PAGE UNTIL YOU ARE TOLD TO BEGIN THE EXAM

1. (a) Explain and demonstrate the application of the following concepts
    (i) Liquidity preference **[4 marks]**
    (ii) Liquidity trap **[4 marks]**
    (iii)Bank run **[4 marks]**
    (iv)Central bank independence **[4 marks]**

   (b) Critically discuss the use of two quantitative methods to control money supply **[4 marks]**

   (c) Stating your assumptions clearly derive the money multiplier and explain how each of the factors affect the money supply **[4 marks]**

   (d) Critically discuss the issue of the use of plastic money and other internet banking services affect the supply and demand for money **[4 marks]**

   (e) With reference to the bond note, the South African rand and the US dollar explore the concept of money **[4 marks]**

   (f) Contrast the concept of inflation to deflation (illustrate in diagrams) **[4 marks]**

   (g)In the context of the ISLM model, suggest a practical way of addressing inflation

   [4 marks]

2. In the context of financial repression and liberalisation
    a) How does the McKinnon and Shaw model illustrate the effects of both financial repression and liberalisation? **[5 Marks]**
    b) What is the role of the financial system in promoting economic growth? **[5 Marks]**
    c) What is the contribution of gully /Shaw model to the above to debate? **[4 Marks]**
    d) Discuss the Mundell –Fleming model
        i. Case one perfect capital mobility under fixed exchange rates **[3 Marks]**
        ii. Perfect capital mobility under flexible exchange rates **[3 Marks]**

3. There are specialized institutions who connect surplus units(Savers) to deficit Units (Borrowers):
    (a) In the context of financial intermediaries explain the process of financial intermediation. **[4 marks]**
    (b) What is the economic role of financial intermediation? **[4marks]**
    (c) What is the difference between primary securities and secondary securities? **[4 marks]**

(d) Gurley and Shaw model explicitly explains the importance of financial intermediation. Demonstrate **[4 marks]**

(e) Make a clear distinction between financial products and financial processes **[4 marks]**

4. (a) What are the major insights an economist may infer from theories about the demand for money. **[10 marks]**

   (b) Explain the transactions demand theory to the demand for money and show in what way it is a dynamic model. **[10 marks]**

5. (a) Compare and contrast the classical theory of interest rate to the loanable funds theory. **[4 marks]**

   (b) What inferences do we draw from the liquidity preference theory on interest rate determination? **[4 marks]**

   (c) Compare and contrast the ISLM model to the Wicksell model of interest rate determination. **[8 marks]**

6. (a) Define the main objectives of monetary policy **[5 marks]**

   (b) Sometimes it is not possible to achieve all the goals of monetary policy, there is a trade-off; give examples of such a trade-off and explain why. **[5 marks]**

   (c) Explain the interaction among targets, indicators and instruments of monetary policy **[10 marks]**

7. (a) Explain clearly three forms of time lags when implementing monetary policy, that is, the recognition lag, the administrative lag and the operational lag. **[6 marks]**

   (b) Detail policy implications of time lags **[6 marks]**

   (c) Discuss the application of monetary policy instruments. **[8 marks]**

End of Examination