



## **FACULTY OF MANAGEMENT AND ADMINISTRATION**

**MEC 405 –MONETARY ECONOMICS EXAM 2**  
**END OF FIRST SEMESTER EXAMINATIONS**  
**LECTURER: G. MANDEWO**  
**3 HOURS**

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### ***INSTRUCTIONS***

Answer Question 1 and any three (3) other questions. Total possible mark is 100

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Start **each** question on a new page in your answer booklet.

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The marks allocated to **each** question are shown at the end of the section.

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Show all your workings.

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Credit will be awarded for logical, systematic and neat presentations.



1. (a) Critically discuss the following tools used by Monetary Authorities to control the stock of money in the economy
  - (i) Moral suasion [4 marks]
  - (ii) Selective credit rationing [4 marks]
  - (iii) Reserve ratio [4 marks]
  - (iv) Bank rate Policy [4 marks]
  - (v) Open Market Operations [4 marks]
 (b) Demonstrate an understanding of financial investment options in the money market.
  - (i) Stock market [4 marks]
  - (ii) Unit trust [4 marks]
  - (iii) A bond [4 marks]
 (c) Critically evaluate the effectiveness of monetary policy in the context of the ISLM model [8 marks]
  
2. (a) What are financial intermediaries? [4 marks]
- (b) Illustrate and explain the process of financial intermediation [8 marks]
- (c) What is the role of financial intermediaries in the economy? [8 marks]
  
3. (a) Give a clear distinction of these three concepts: stagflation, deflation and inflation [4 marks]
- (b) Discuss the various theories of inflation and critique their applicability [8 marks]
- (c) What are the practical viable solutions to the problem of inflation? [8 marks]
  
4. The monetary transmission mechanism is explained in the context of schools of thought. What is the contribution of the:
  - (a) classical [6 marks]
  - (b) Monetarist [7 marks]
  - (c) Keynesians [7 marks]
 to monetary transmission mechanism
  
5. (a) Illustrate and explain the functions of a financial system. [6 Marks]
- (b) In what ways does the process of financial intermediation enhance economic growth? [7 marks]
- (c) Critically examine the problem of financial dualism to economic growth. [7 marks]
  
6. (a) What is money neutrality? [4 marks]
- (b) What are the conditions that should hold for money to be neutral? [8 marks]
- (b) Illustrate the arguments that support the notion that money is not neutrality. [8 marks]

7.(a) What are the attributes of financial repression? [5 marks]

(b) Using theories of financial liberalization explain how financial liberalization may enhance economic growth. [15 marks]

8. (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]  
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