

- b) Describe Friedman's modern quantity theory of money. Be sure to define all variables used in the equation. (10 marks)

**Question 5**

- a) Define a currency board and explain how it differs from dollarization. (10 marks)
- b) Outline any five criticisms of the liquidity-preference theory of Keynes. (5 marks)
- c) What arguments are raised on the instability of the money demand function? (5 marks)

### Question 1 (COMPULSORY) TOTAL MARKS (40)

- a) In your opinion, why is it important to study monetary economics? (5 marks)
- b) Money is usually defined by the functions that it performs. Explain. (5 marks)
- c) Two broad approaches can be distinguished in discussions on the empirical definition of money. Briefly explain the two. (5 marks)
- d) Financial instruments fall under two main classes, namely underlying instruments and derivatives. Describe these. (10 marks)
- e) Asymmetric information is cited as one of the reasons why intermediation is necessary. Explain. (5 marks)
- f) Summarize the main points raised in the most recent 2013 monetary policy statement from the Central bank of Swaziland. Be sure to talk about the decision on the discount rate. (10 marks)

### Question 2

- a) Define the following: monetary base, cash ratio, reserve ratio, free reserves and fractional reserve banking. (10 marks)
- b) Provide an overview of the financial system in Swaziland. Highlight any two challenges facing the banking sector in Swaziland. (10 marks)

### Question 3

- a) Discuss the use of open market operations (OMOs) as a monetary policy tool. Be sure to use examples and identify the two types of OMOs. (10 marks)
- b) Discuss any **three** forms of regulation employed by the Central Bank of Swaziland to regulate the banking industry. (10 marks)

### Question 4

- a) Discuss, in detail, the domestic asset price channel of the monetary policy transmission mechanism. (10 marks)

**UNIVERSITY OF SWAZILAND**  
**FACULTY OF SOCIAL SCIENCE**  
**DEPARTMENT OF ECONOMICS**  
**MAIN EXAMINATION**  
**NOVEMBER 2013**

**TITLE OF PAPER :            MONETARY THEORY**

**COURSE CODE :            ECON 402**

**TIME ALLOWED :            THREE (3) HOURS**

**INSTRUCTIONS :    1.    ANSWER QUESTION ONE AND ANY  
   OTHER THREE QUESTIONS**

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GRANTED BY THE CHIEF INVIGILATOR**