

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
SUPPLEMENTARY EXAMINATION

JULY 2018

TITLE OF PAPER: MONETARY POLICY

COURSE CODE: ECON 404

TIME ALLOWED: 2 HOURS

**INSTRUCTIONS: ANSWER QUESTION ONE (1) AND ANY TWO (2)
OTHER QUESTIONS**

QUESTION ONE CARRIES 40 MARKS

**THE REST OF THE QUESTIONS CARRY 30 MARKS
EACH**

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THE CHIEF INVIGILATOR.**

Question One (Compulsory)**(40 MARKS)**

1. (a) With the aid of a diagram(s), illustrate the effects of an expansionary monetary policy under (i) a flexible exchange rate system (ii) a fixed exchange rate system with no capital mobility in the Mundell-Fleming Model. [30]
- (b) How can a sharp rise in interest rates provoke a financial crisis? [10]

Answer Any Two Questions From The Following:**(30 Marks Each)****Question Two**

2. (a) Briefly state the benefits and costs associated with membership in an Optimum Currency Area. [18]
- (b) What characteristics should a region have to be described as an OCA? [12]

Question Three

3. (a) Describe the different monetary policy regimes available. [15]
- (b) Which of the policy regimes in (a) above has been adopted by the Central Bank of Swaziland. Explain why it chose this target. [5]
- (c) Define capital mobility and state its determinants. [10]

Question Four

4. (a) What are the dangers of a high government debt for monetary policy? [20]
- (b) State the pillars of Inflation Targeting [5]
- (c) Why might the level of government debt affect the government's incentives regarding money creation? [5]