

UNIVERSITY OF FORT HARE

MONETARY ECONOMICS
ECO 516/516E

DEGREE EXAMINATIONS

JANUARY/FEBRUARY

2020

SUPPLEMENTARY/AGROETAT EXAM

Time: 3 hours
Subject: ECO 516
Marks: 100

This paper consists of 3 pages including the cover page

Internal Examiners

Dr C MLAMBO

External Examiners

Prof A. MAREDZA

INSTRUCTIONS

ANSWER ANY FOUR QUESTIONS

Question One

- i. Suppose you are a classical economist. Assume that there has been an increase in financial innovation and financial technology. How would the change in financial technology and innovation affect your stance on the determinants of money demand? (20)
 - ii. Define the term monetary policy (5)
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Question Two

- (i) Provide a brief overview of the monetary policy transmission mechanism with the official interest rate as the operational variable (15)
- (ii) Briefly discuss why some economists believe that inflation is not always and everywhere a monetary phenomenon. (10)

Question Three

- i. “Cost-push inflation occurs as a result of workers’ attempts to push up their wages. Therefore, inflation does not have to be a monetary phenomenon.” Discuss. (20)
- ii. Using the Flow of Funds approach, explain the likely effect on the rate of monetary expansion of a central bank’s decision to raise interest rates (5)

Question Four

- (i) Why do the assumptions of rational expectations and continuous market clearing in the new classical school imply that output can deviate only temporarily from the full employment level? (20)
 - (ii) Briefly discuss why some economists believe that inflation is not always and everywhere a monetary phenomenon. (5)
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Question Five

- i. Compare and contrast the money supply curves under the endogenous and exogenous money supply approaches (20)
- ii. Using the Flow of Funds approach, explain the likely effect on the rate of monetary expansion of a central bank's decision to raise interest rates (5)