OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS 2020 /2021 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF ECONOMICS (ARTS)

COURSE CODE: ECO 328

COURSE TITLE: MONETARY THEORY AND PRACTISE

DATE: 22nd July 2021   **TIME: 1.00-4.00pm**

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES   PLEASE TURN OVER

ECO 328: MONETARY THEORY AND PRACTISE

STREAM: BA (Economics)

DURATION: 3 Hours

INSTRUCTION TO CANDIDATES

i.   *Answer question ONE and any other TWO questions*

ii.   *Do not write on the question paper.*

QUESTION ONE;

a) In lieu of the **Quantity Theory of Money** explain the functions of money, and give a critique of the QTM (Quantity theory of Money).
(10 marks)

b) Modern Monetary Theory (MMT) is a school of monetary and macroeconomic thought that focuses on the analysis of the monetary and credit system, and in particular on the question of credit creation by the state. It is based on the ideas of post-Keynesianism and Chartalism, the latter of which was founded by Georg Friedrich Knapp (Ehnts 2020).

Required;

Explain misconceptions and gaps of the **neo-classical monetary theories** that MMT seeks to address.   (10 marks)
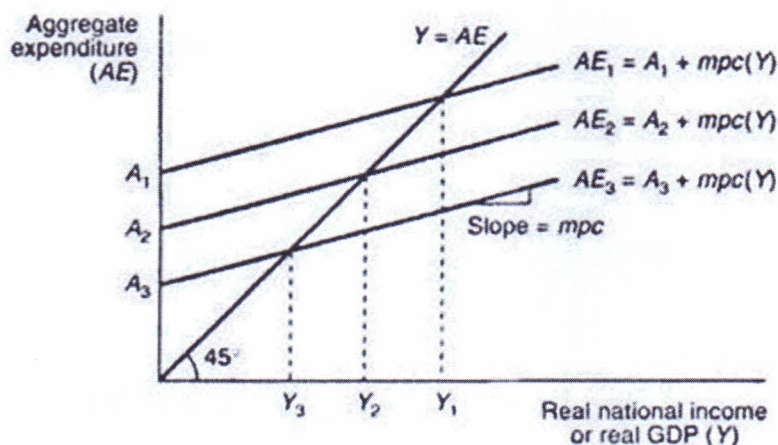
c) Define each of the following

  i.   Fractionally backed and fiat money
  ii.   Discount window and discount rate
  iii.   Crowding out
  iv.   Monetary neutrality

(10 marks)

QUESTION TWO;

Keynes approach to money determines equilibrium real national income or GDP using the income-expenditure approach depicted graphically, as in Figure . The figure shows three different **aggregate expenditure curves**, labeled AE_1, AE_2, and A_3, which correspond to three different levels of autonomous expenditure, A_1, A_2, and A_3

Aggregate
expenditure
(AE)

$Y = AE$

$AE_1 = A_1 + mpc(Y)$

$AE_2 = A_2 + mpc(Y)$

$AE_3 = A_3 + mpc(Y)$

Slope = mpc

A_1

A_2

A_3

45°

Y_3 Y_2 Y_1

Real national income
or real GDP (Y)

■ Figure 19 ■

Figure 1

The Keynesian income-expenditure approach to equilibrium real GDP

Required;

Distinguish between Kayne's approach and classical theorists approach to effect on GDP by the behaviour of prices and wages. (20 marks)

QUESTION THREE;

a) Explain why money is demanded using the Keynes theory of money. [10 marks]

b) Cite the implications of the Friedman theory of money. [10 marks]

QUESTION FOUR;

a) The marginal propensity to consume (MPC) measures how consumer spending changes with a change in income. Using the following (algebraic) set of equation:

$C = m(DI) + b$
$I = I_o$
$G = G_o$
$T = T_o$
$X = M = 0$
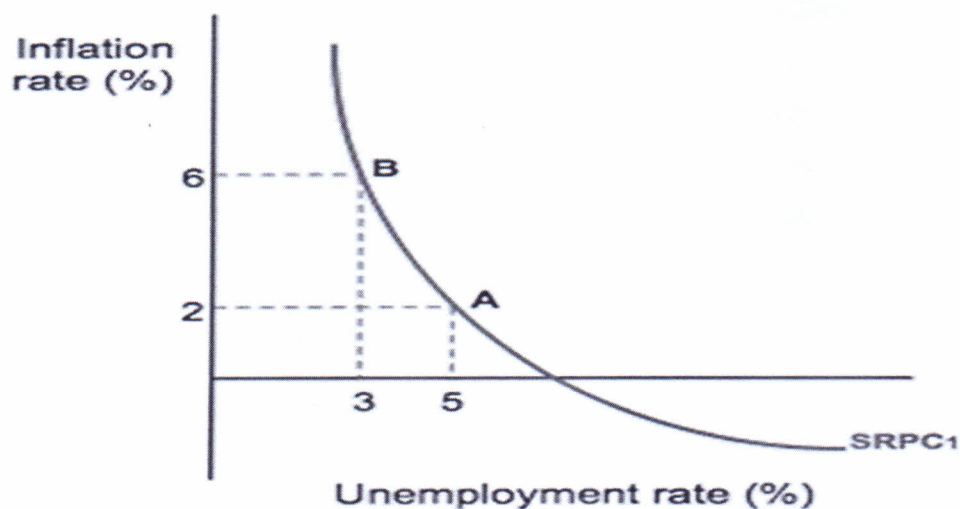$AE = Y = [m(Y - T_o) + b] + I_o + G_o + (0 - 00$

Derive the multiplier formulae. (10 marks)
Where; C = consumption spending, m = marginal propensity to consume, b = autonomous consumption, DI = disposable income, I = investment expenditure, G = government spending, X = exports, M = imports, and T = tax revenue).
(10 marks)

b.

Short-run Phillips curve:

Use the above illustration to explain the relationship between unemployment and inflation.

[10 marks]

QUESTION FIVE;

(a) Do Monetarists agree with Friedman's contention that inflation is always and everywhere a monetary phenomenon? Explain using the AD-AS model.   [10 marks]

(b) Do Keynesians agree with Friedman's contention that inflation is always and everywhere a monetary phenomenon? Explain using the AD-AS model.   [10 marks]