ALUPE UNIVERSITY COLLEGE

...*Bastion of Knowledge*...

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OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2019/2020 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER REGULAR EXAMINATION

FOR THE BACHELOR OF ARTS ECONOMICS

COURSE CODE: **ECO 328**

COURSE TITLE: **MONETARY THEORY & PRACTICE**

DATE: **29TH OCT 2020**   **TIME: 9am-12 Noon**

INSTRUCTIONS TO CANDIDATES

- SEE INSIDETHIS PAPER CONSISTS OF 3 PRINTED PAGES   PLEASE TURN OVER

COURSE CODE: ECO 328 COURSE TITLE: MONETARY THEORY & PRACTICE

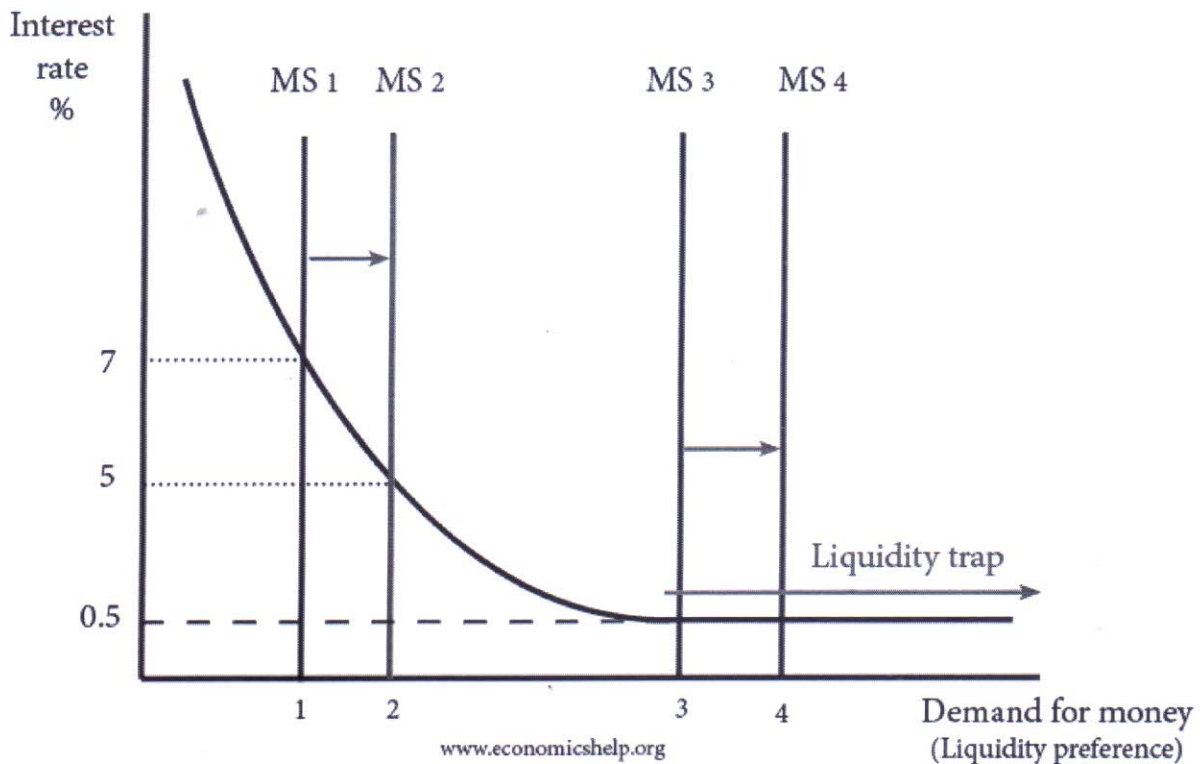<u>**STREAM: BA ECON**</u>   <u>**DURATION:3HOURS**</u>

<u>**INSTRUCTIONS TO CANDIDATES**</u>

   i.   *Answer three questions. Question one is compulsory*

   ii. *Do not write on the question paper*

Question One

   a. Contrast the Quantity theory of Money with Keyness theory on money , and show how
      they inform the modern monetary theory practiced by Central Banks.   [10 marks]

   b. Use the following illustration to explain keyness thoughts on money demand and the
       liquidity trap   [10 marks]

Interest
rate
%

MS 1   MS 2   MS 3   MS 4

7

5

Liquidity trap

0.5

         1   2   3   4   Demand for money
              www.economicshelp.org   (Liquidity preference)

   c. Provide a critical analysis of the classical theories of money   [10 marks]

Question Two

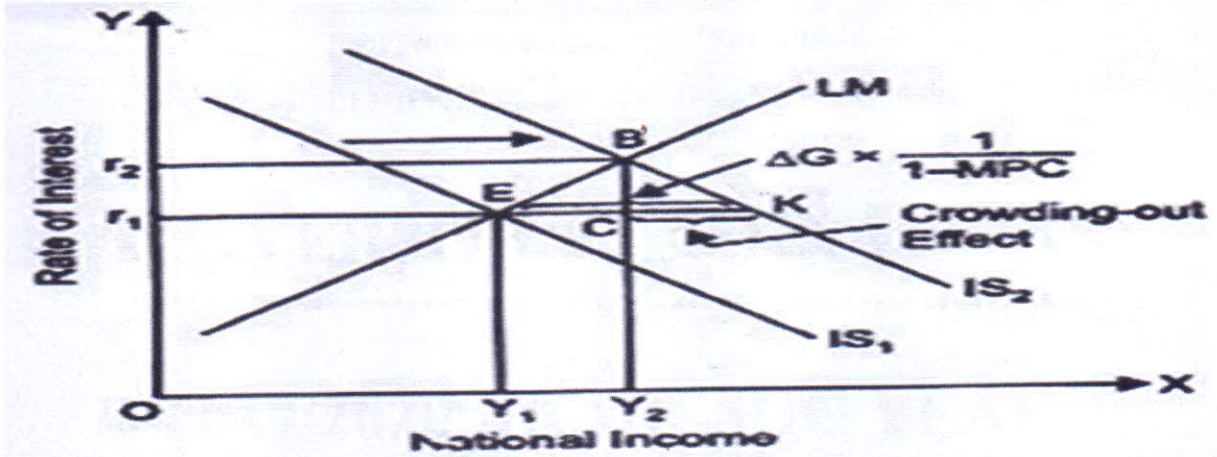a. Discuss the effect of monetary and fiscal policy on the IS-LM curve below [10 marks]

Fig. 20.6. Expansionary Fiscal Policy : Impact of Increase in Government Expenditure on Interest Rate and Income

b. Show and explain the monetary tools that a central bank may use to intervene in a depressed economy   [10 marks]

Question Three

a. Discuss the Friedman's thoughts on monetary theory   [10 marks]
b. Explain Fiscal policy measures available for an economist   [10 marks]

Question Four

a. .Discuss the views of a monetarist on an economy   [10 marks]
b. Illustrate with the IS – LM curve , the an economist intervention during inflation
          [10 marks]

Question Five

The following equations describe an economy:

$C = 10 + 0.5 Y$ (Consumption function)

$I = 190 - 20i$ (Investment function)

a. Derive the equations for IS curve and represent it graphically.   [10 marks]
b. Describe the monetary and fiscal policy interventions embraced by governments in addressing the adverse effects of the Covid-19 pandemic   [10marks].

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