



University of Sri Jayewardenepura
Faculty of Humanities and Social Sciences

Bachelor of Arts Third Year Second Semester Examination –January/ February- 2018
Economics

ECON 3241.03 – MONETARY ECONOMICS

Time: Three (3) Hours

Answer five (5) questions. 80 marks allocated for the final exam and 20 marks for the Continuous Assessment.

Part A

Answer any two (2) questions from this part

1. i. What is money and why do we use it? Outline the different types of money.
ii. Explain the function of money. [8 marks each]
2. Briefly explain the Classical and the Keynesian approach of the demand for money. [16 marks]
3. Discuss the relationship between Fisher's Transaction approach and the Cambridge Cash Balances approach. [16 marks]
4. "Friedman's restatement of the quantity theory of money is based on the Fisher equation". Discuss. [16 marks]

Part B

Answer any two (2) questions

5. i. Explain how the adverse selection problem affects to the financial structure. Outline the tools used to solve the adverse selection problem in the financial system.
ii. Banks are the major financial intermediary institutions that provide financial facilities to household and business sectors of an economy. Using appropriate examples, explain the advantages and disadvantages of financial intermediation from borrower's and lender's point of view.

[8 marks each]

6. i. "The money markets provide short-term financing to institutional investors and large corporations". Discuss the characteristics, instruments & operations of short-term money market.
- ii. Explain the recent trends and the steps taken by the government for the improvement of the bond market over the past decade in Sri Lanka.

[8 marks each]

7. i. Explain the characteristics, operation and risk involved in a Unit trust.
- ii. Discuss the role and the importance of share market for a company.

[8 marks each]

Part C

Answer any one (1) question from this part

8. Describe the components of money supply? What are the recent trends of money supply in Sri Lanka
- [16 marks]
9. Explain the importance of financial system in economic development
- [16 marks]
10. Explain the different theories that determine the interest rate in the financial system.
- [16 marks]

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