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University of Sri Jayewardenepura  
Faculty of Humanities and Social Sciences

Bachelor of Arts Third Year Second Semester Examination –January/ February- 2019  
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 the double-coincidence of wants?  
ii. What are the main functions served by money? [8 marks each]
2. What are the three main motives for holding money? [16 marks]
3. What are the Similarities and dissimilarities between Fisher's Transaction Approach and the Cambridge Cash Balances Approach? [16 marks]
4. Explain Milton Friedman's Theory of the Demand for Money. [16 marks]

**Part B**

**Answer any two (2) questions from this part**

5. i. "Asymmetric information in financial markets leads to adverse selection and moral hazard problems" Explain.  
ii. Explain the tools used to solve the adverse selection problem in financial system. [8 marks each]

6. i. Distinguish between money and capital markets? Are they complementary or substitute?
- ii. Explain the major type of money market instruments traded in Sri Lanka and highlights of the recent trends in money market activities.

[8 marks each]

7. i. Briefly discuss two key theories explaining the determination of interest rates.
- ii. Critically examine the risk and term structure of interest rates?

[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. What is the role of financial system in economic development? [16 marks]
10. Explain the recent trends and steps taken by the government for the improvement of the bond market over past five years in Sri Lanka. [16 marks]

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