

THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE IN SOCIAL SCIENCES – LEVEL 4
FINAL EXAMINATION– 2023/2024 (Semester 1)
DSU4335 – MONETARY ECONOMICS
DURATION: THREE HOURS (03 HOURS) ONLY



Date: 10th December 2023

Time: 9.30 a.m to 12.30 p.m.

Instructions:

- Answer only five (05) questions.
- Each question carries twenty (20) marks.
- Please write in clear handwriting.

1. a) What is the definition of money, and why is it considered a crucial element in modern economies?

b) Describe the three functions of money and give examples for each.

(20 Marks)

2. a) Explain the impact of technological advancements in payment systems on the transactions demand for money.

b) During a financial crisis, how does the precautionary demand for money change, and what strategies do people adopt to address uncertainty. Explain.

(20 Marks)

3. a) Analyze how the demand for money is affected by changes in income and wealth.

b) Describe the possible impact of major economic events, such as COVID-19 or economic crisis on the demand for money.

(20 Marks)

4. a) How does the 'Liquidity Preference Theory' explain the impact of changes in interest rates on people's preferences for holding money versus other assets? Explain your answer with examples.

b) Explain how macroeconomic factors, such as inflation and economic growth, interact with the Liquidity Preference Theory.

(20 Marks)

5. a) How does the Modern Quantity Theory of Money account for the relationship between money supply and inflation in today's complex global economy?

b) Explain how changes in consumer behavior affect the quantity and velocity of money.

(20 Marks)

6. a) How have credit and debit cards revolutionized the way people conduct transactions and manage their finances in the digital age?

b) What are the advantages and disadvantages of using credit cards and debit cards for everyday purchases?

(20 Marks)

7. a) Discuss the significance of the 'Assets' and 'Liabilities' of the balance sheet and how they reflect a bank's financial health.

b) Provide specific examples of items that typically appear on each side of the balance sheet.

(20 Marks)

8. a) Explain the concept of open market operations and how central banks use these tools to implement monetary policy.

b) What is the role of reserve requirements as a monetary policy tool? How do changes in reserve requirements affect the lending capacity of commercial banks?

(20 Marks)

9. Write **four (04)** short notes for the following topics.

a) Response of the interest rate and aggregate output to a change in monetary policy

b) Shifts in the IS – LM curve

c) Goals of Monetary Policy

d) The Instruments of Monetary Policy

e) Monetary Multiplier

f) The Barter System

(20 Marks)

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