

THE OPEN UNIVERSITY OF SRI LANKA  
DEPARTMENT OF SOCIAL STUDIES  
BA DEGREE PROGRAMME IN SOCIAL SCIENCES – LEVEL 4  
FINAL EXAMINATION– 2024/2025 (SEMESTER 1)  
DSU4335 – MONETARY ECONOMICS



**DURATION: THREE HOURS (03 HOURS) ONLY**

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**Date: 29.03.2025**

**Time: 01.30 p.m. – 04.30. p.m.**

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**Instructions:**

- Answer only **FIVE (05)** questions.
- Each question carries twenty (20) marks.
- Write your answers in clear handwriting.

1. (a) Explain the role of money as a medium of exchange in modern economies.  
  
(b) Discuss the practical challenges of a barter system that money helps to overcome.
  
2. (a) Differentiate between commodity money and fiat money using examples.  
  
(b) Evaluate the impact of inflation on the store of value function of money.
  
3. (a) Identify the main motives for holding money as described in the liquidity preference theory.  
  
(b) Provide practical examples of how businesses and individuals adjust their money holdings based on changes in interest rates.
  
4. (a) Discuss the relationship between the demand for money and GDP in an economy.  
  
(b) Explain how technological advancements in digital transactions impact the demand for money.

5. (a) Describe the key determinants of money supply in an economy.
- (b) Analyze how central banks use open market operations to regulate the money supply.
6. (a) Explain the concept of the money multiplier and its role in money creation.
- (b) Illustrate with a practical example how commercial banks contribute to the creation of money through lending.
7. (a) Compare and contrast the Keynesian and Friedman's theories of money demand.
- (b) Discuss how an increase in interest rates affects money demand according to these theories.
8. (a) Explain the main objectives of monetary policy and how they contribute to economic stability.
- (b) Discuss the impact of changes in the reserve ratio on commercial banks' lending ability and money supply.
9. Write any **FOUR (04)** short notes on the following topics.
- a) Money Supply Mechanisms
  - b) Monetary Policy Tools
  - c) Banking System and Credit Creation
  - d) Determination of Aggregate Output
  - e) Credit Cards and Debit Cards
  - f) The Discount Rate