

THE OPEN UNIVERSITY OF SRI LANKA  
 DEPARTMENT OF SOCIAL STUDIES  
 BA DEGREE IN SOCIAL SCIENCES – 2018/2019  
 FINAL EXAMINATION – LEVEL 4 (1<sup>ST</sup> SEMESTER)  
 DSU4335 – MONETARY ECONOMICS



DURATION: THREE (03) HOURS ONLY

Date: 3<sup>rd</sup> February 2019

Time: 01.30 p.m – 04.30 p.m

**Instructions:**

➤ Answer five (05) questions only.

1. (a) Define the term “Money” and explain different forms of Money. (8 Marks)  
 (b) Briefly explain any four (04) drawbacks of barter systems by comparing the function of money. (12 Marks)
2. Graphically explain the money market equilibrium of an economy and explain why money supply curve is vertical. (20 Marks)
3. Briefly Explain the liquidity preference theory in economics. Why does liquidity theory undermine the quantity theory of money? (20 Marks)
4. (a) Discuss the factors that can determine money supply of an economy. (10 Marks)  
 (b) “The equilibrium in an economy is achieved when aggregate demand equals aggregate supply”. Discuss this statement by providing examples. (10 Marks)
5. Explain how the process of money creation expands the money supply of a country? Provide examples. (20 Marks)
6. Explain three (03) instruments used by central bank to control money creating ability of commercial banks. (20 Marks)
7. Discuss the effects of an expansionary monetary policy and a contractionary monetary policy. (20 Marks)
8. Graphically explain the following in the IS-LM model (5 Marks each)
  - (a) An increase in taxes
  - (b) A decline in money supply
  - (c) An increase in money demand
  - (d) A decline in Net export