THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE PROGRAMME IN SOCIAL SCIENCES – 2015/2016
FINAL EXAMINATION – LEVEL 4 (1ST SEMESTER)
SSU2135 – MONETARY ECONOMICS

DURATION: THREE HOURS (03 HOURS)

Date: 08th November 2015 **Time: 01.30 p.m. – 04.30 p.m.**

Instructions:

- ***Answer five (05) questions only.***
- ***All questions carry equal marks. Each question carries 20 marks.***

1. (a) Critically explain the determinants of the demand for money
   (b) Explain the key features of the equilibrium in the money market and how equilibrium is restored when there is a shortage or surplus in demand for money.

2. (a) Describe the Cambridge approach of the quantity theory of money.
   (b) Explain the criticism against the classical approach to the demand for money.

3. (a) What will determine the money supply? Explain.
   (b) Define money multiplier and monetary base, and critically explain the relationship between them.

4. (a) Explain why reserves are assets to the commercial banks but liabilities to the Central Bank.
   (b) Critically examine the components of a balance sheet of a commercial bank and explain why a balance sheet must always balance.

5. (a) What are the monetary policy instruments?
   (b) Describe the major goals of monetary policy.

6. Explain the effectiveness of monetary policy of the Central Bank of Sri Lanka in achieving the above mentioned goals.

7. (a) Briefly explain what is aggregate output and aggregate demand.
   (b) Explain how the equilibrium level of aggregate output is determined.

8. (a) Derive IS curve and LM curve
   (b) Explain the process of determination of aggregate output and interest rate using the ISLM model.

9. Write short notes on the following.
   (a) Double co-incidence of Wants
   (b) Precautionary Demand for money
   (c) Baumol- Tobin Model of Transaction Demand
   (d) The IS-LM model

*****Copyrights Reserved*****