THE PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY

DEPARTMENT OF BUSINESS STUDIESS

APPLIED ECONOMICS

SEMESTER two (2) 2021

AE 321 Monetary Economics

FINAL EXAMINATION

DATE:

TIME:

VENUE:

TIME ALLOWED: 3 HOURS

INSTRUCTION TO CANDIDATES:

1.   You have 10 minutes to read the Paper. You must not begin writing during this time.

2.   This examination is out of 100 and constitutes 50% of the total assessment.

3.   There **are 7 Questions. First 3 questions are compulsory. From remaining 4 questions answer only any 2 (TWO)**

4.   Please print your full name and student number on the examination answer booklet. Do it now.

5.   Mobile Phones and other electronic gadgets are **not permitted** in the examination room. They must be switched off and left at the entrance of the examination room.

6.   Calculators are permitted to be used in the test, however text books and lecture materials and notes of any sort are **not permitted**. Cheating is an offence and offenders will be penalized.

First 3 questions are compulsory. From remaining 4 questions answer only any 2 (TWO

Question No 1 Calculate the expected inflation rate using difference form (addition instead of multiplication in the quantity theory equation)of quantity theory

The Money supply growth rate 12 % , the Velocity of Money growth rate = zero or the velocity is constant , the real income growth rate = 5% , What is the expected inflation rate for the same period ?

(Marks 12)

Question No.2

Calculate the equilibrium money supply (M) from the given figures of the High powered money supply (H) , and the Currency / Demand deposit ration (c) , and the Reserve Deposit ratio (r) You should apply the money multiplier formula and multiply it with High powered money to get M .

H= 100 million K , and the Currency / Demand deposit ration (c) = 0.4 , and Reserve ratio (r) = 0.2 What is equilibrium M ?

(Marks 12)

Question No 3 Explain the role of the Permanent income, and the human capital in Milton Friedman's Modern quantity theory of money

(Marks 16)

Out of the remaining questions answer only any two (2) only

Question No 4

Explain (a) the assumptions of the Quantity theory of money (b) the conclusions of the Quantity theory of money (c) the Criticisms against the Quantity theory of Money

(Marks 30)

⌘Question No.5

Draw the graph Explain the Keynesian theory of the demand for money and the Liquidity trap and the effectiveness of the monetary policy

(Marks 30)

Question no. 6

Draw and explain the slopes and positions of IS-LM curves, and the conditions for the success of the fiscal and monetary policies. (Marks 30)

Question No.7

Explain the tools and techniques of the monetary policy (marks 30)