

Tutorial letter 101/3/2014

Monetary Economics III

ECS3701

Semesters 1 & 2

Department of Economics

**This tutorial letter contains important information
about your module.**

BAR CODE

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Please note / important notes:

This tutorial letter should be read in conjunction with the *My studies @ Unisa* brochure and tutorial letters **ECSALL/301/3/2014** and **ECSALL/302/3/2014**.

We recommend that you register for and use **myUnisa** (see *My studies @ Unisa* for details) as this will give you direct access to important information and allow you to perform tasks such as updating your personal information, submitting assignments, confirming receipt of assignments, obtaining assignment marks, obtaining examination time tables and results, joining online discussion forums and many more.

1 INTRODUCTION AND WELCOME

Dear Student

Welcome to Monetary Economics!

1.1 Tutorial matter

This tutorial letter contains important information about the scheme of work, resources and assignments for this module. Please read it carefully and consult it as you need to as you work through the study material, prepare your assignments, prepare for the examination and direct questions to your lecturers.

This tutorial letter also contains the assignments and assessment criteria as well as instructions for preparing and submitting the assignments. It also provides all the information you need with regard to the official study material and other resources and how to obtain these. Please study this information carefully and make sure that you obtain the prescribed textbook as soon as possible.

2 MODULE PURPOSE AND OUTCOMES

Once you have completed this module, you should have a thorough understanding of the following:

- financial markets and financial instruments, and the meaning of monetary policy
- interest rates, how interest rates on assets are determined in the market and why interest rates differ
- how financial structure affects the economic efficiency of markets and how banks function
- the role of the central bank within the banking system
- the basic theoretical issues underlying monetary theory; this includes the demand for money, the ISLM model and its use, and the role of monetary policy to prevent inflation

3 LECTURERS AND CONTACT DETAILS

3.1 Lecturers

Your lecturers for this module are:

ECS3701	Ms Lydia Leshoro (module leader) Tel: 012 433 4625 E-mail: lesholat@unisa.ac.za Office: Club 1 Building, Room 2-28
	Prof Olusegun Ayo Akanbi Tel: 012 433 4637 E-mail: akanboa@unisa.ac.za Office: Club 1 Building, Room 2-13

Depending on our other commitments, we are usually available during office hours, but it is best to contact us before 12:30 on working days. Please send us an e-mail or phone us if you have any questions about the academic content of this module. Unfortunately we cannot help you with administrative queries, for instance about registration.

3.2 Administrative enquiries

If you have any administrative enquiries, please contact the CEMS information coordinator, Ms Portia Ngcobo. She will then channel enquiries to the relevant departments. Her contact details are as follows:

Portia Ngcobo
College Information Coordinator
College of Economics and Management Sciences
Tel: 012 429 3925
E-mail: CEMSenquiries@unisa.ac.za

4 RESOURCES FOR THIS MODULE

Your study material for this module consists of the following:

- a prescribed textbook
- a study guide
- tutorial letters that you will receive from time to time

The despatch department at Unisa will supply you with the study guide and tutorial letters. Please contact that department if you experience problems. You can also download the study guide and tutorial letters from myUnisa.

4.1 Textbook

There is one compulsory and prescribed textbook for this module. Here are the details:

Mishkin, FS. 2013. *The economics of money, banking and financial markets (global edition)*. 10th edition. Boston: Pearson Education.

PLEASE OBTAIN THE PRESCRIBED BOOK AS SOON AS POSSIBLE!

The prescribed book for ECS3701 is published abroad. Please obtain the book **as soon as you register**, because if booksellers are out of stock, it may take up to three months for new stock to arrive. Should you experience any problems obtaining the prescribed book, contact the prescribed books section at 012 429 4152 or e-mail vospresc@unisa.ac.za. You will need to supply the names of the booksellers you have contacted, and the staff of the prescribed books section will then investigate and try to solve the problem.

4.2 Study guide

As mentioned previously, this module uses a prescribed textbook. The advantage of a textbook is that it explains concepts and issues in detail so that the study guide does not have to explain everything from basic principles. You will find that the textbook is well written and well structured.

The purpose of the study guide is to:

- indicate which chapters and sections are prescribed for this course
- indicate which specific topics and concepts in the prescribed chapters and sections you need to understand
- include material, where necessary, that addresses the South African situation

The study guide also contains short and long questions on each chapter to help you with your preparation for the examination.

4.3 myUnisa

Periodically check the myUnisa website for this module and look under Additional Resources for any items of interest that may have been uploaded.

5 STUDENT SUPPORT SERVICE

For information on the various student support systems and services available at Unisa (e.g. student counselling, tutorial classes, language support), please consult *My studies @ Unisa*.

5.1 Contact with fellow students: study groups

It is a good idea to have contact with fellow students. One way to do this is to form study groups. You may obtain the addresses of students in your area from the following directorate:

Directorate: Student Administration and Registration
PO Box 392
UNISA
0003

Please contact the CEMS Information Coordinator or follow the myUnisa instructions (see below) for more information in this regard.

5.2 myUnisa

If you have access to a computer that is linked to the internet, you can quickly access resources and information at the University. The myUnisa learning management system is Unisa's online campus, which will help you to communicate with your lecturers, with other students and with the administrative departments of Unisa – all through the computer and the internet.

To go to the myUnisa website, start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the “Login to myUnisa” link on the right-hand side of the screen. This should take you to the myUnisa website. You can also go there directly by typing <http://my.unisa.ac.za> into your web browser.

6 ASSESSMENT PLAN

A summary of the assessment plan for the Department of Economics appears in Tutorial Letter 301.

In general, assessment will be done by the module leader and, where applicable, the module team and/or contracted external markers and examiners. The names of examiners will be indicated on the examination question papers.

Please note that the application for and administration of re-marking of examination scripts are handled solely by the examinations department and not by academic departments.

An integrated assessment system is used for this module. This means that your final mark will depend on your examination mark as well as on your performance during the semester. By completing and submitting assignments during the semester, you will gain admission to write the examination and accumulate a semester mark. The system is explained in more detail below.

You are welcome to seek clarification of, or comment constructively on, the module's assessment system. If possible, please do this in writing by e-mail, letter or fax.

7 HOW THE ASSIGNMENT SYSTEM WORKS

7.1 Assignments and learning

Assignments are seen as part of the learning material for this module. When you tackle the assignment, study the reading texts, consult other resources, discuss the work with fellow students or tutors, you are actively engaged in learning. Looking at the assessment criteria and/or feedback given for the assignments will also help you to understand what is required of you more clearly.

7.2 Enquiries about assignments

If you have any enquiries about assignments (e.g. whether or not the University has received your assignment or the date on which assignment results were posted or sent out), please direct these to the CEMS information coordinator. You may also find information on myUnisa.

7.3 Submitting assignments

You may submit assignments on mark-reading sheets (such as Assignments 01 and 02) either by post or electronically via myUnisa. However, we recommend that you submit the assignments electronically. The advantages of this are that your assignment is delivered immediately and that it cannot get lost in the post.

To submit an assignment via myUnisa:

- Go to myUnisa.
- Log in with your student number and password.
- Select the module.
- Click on Assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

Assignments submitted by post should be addressed to:

The Registrar
PO Box 392
UNISA
0003

You may **not** submit assignments by fax or e-mail.

For detailed information regarding assignments, consult *My studies @ Unisa*.

7.4 Comments and feedback on assignments

You will receive the correct answers to multiple-choice questions, as in Assignments 01 and 02, automatically. However, comments on compulsory assignments will be sent to all students registered for this module in follow-up Tutorial Letters 201 and 202, not only to those students who submitted the assignments. Because the postal system is slow, instead of mailing Tutorial Letter 202 we may just load it onto myUnisa – there is no point in your receiving Tutorial Letter 202 by mail two weeks after you have written your exam!

As soon as you have received the feedback, please check your answers. The assignments and our comments on them make an important contribution to the learning process, and should help you to understand the study material better.

7.5 Proposed study programme

You cannot cram for this module – you simply have to allow sufficient time to develop your understanding of the issues. There are no shortcuts to success, so please work diligently and consistently throughout the semester.

To help you to do this, below we have given you a recommended study programme, which includes time for assignment preparation and the assignment due dates. You will find the assignments in section 9 of this tutorial letter.

Recommended study programme for ECS3701

	Week	Date	Part	Chapter(s)	Due dates
Semester 1	1	03 Feb – 07 Feb	1	1, 2	
	2	10 Feb – 14 Feb	1, 2	3, 4	
	3	17 Feb – 21 Feb	2	5, 6	
	4	24 Feb – 28 Feb	1, 2	Complete and submit Assignment 01	03 Mar
	5	03 Mar – 07 Mar	3	8, 9, 10, 11	
	6	10 Mar – 14 Mar	4	14, 15	
	7	17 Mar – 21 Mar	4	16, 17	
	8	24 Mar – 28 Mar	3, 4	Complete and submit Assignment 02	01 Apr
	9	31 Mar – 04 Apr	6	20, 21	
	10	07 Apr – 11 Apr	6	24	
	11	14 Apr – 18 Apr	6	25, 26	
	12	21 Apr – Exam	All	Revision	

	Week	Date	Part	Chapter(s)	Due dates
Semester 2	1	21 Jul – 25 Jul	1	1, 2	
	2	28 Jul – 01 Aug	1, 2	3, 4	
	3	04 Aug – 08 Aug	2	5, 6	
	4	11 Aug – 15 Aug	1, 2	Complete and submit Assignment 01	18 Aug
	5	18 Aug – 22 Aug	3	8, 9, 10, 11	
	6	25 Aug – 29 Aug	4	14, 15	
	7	01 Sep – 05 Sep	4	16, 17	
	8	08 Sep – 12 Sep	3, 4	Complete and submit Assignment 02	15 Sep
	9	15 Sep – 19 Sep	6	20, 21	
	10	22 Sep – 26 Sept	6	24	
	11	29 Sept – 03 Oct	6	25, 26	
	12	06 Oct – Exam	All	Revision	

8 HOW THE EXAMINATION SYSTEM WORKS

For general information about examinations, consult *My studies @ Unisa*.

8.1 Examination admission and semester mark

Within the context of the integrated assessment system, assignments are important for obtaining admission to the examination and for accumulating a semester mark. The semester mark counts 10% of your final mark.

Assignment 01 is **compulsory**. It consists of 40 multiple-choice questions. To be allowed to write the examination, you **must** submit Assignment 01 before or on the due date. The mark you obtain for Assignment 01 counts 40% of your semester mark.

Assignment 02 is not compulsory, but we strongly recommend that you submit it; the mark you obtain for Assignment 02 will count 60% of your semester mark. It consists of 30 multiple-choice questions. Submitting Assignment 02 will not earn you admission to the examination – for examination admission you **must** submit Assignment 01.

Your final mark is calculated as follows:

- Semester mark (20%) + Examination mark (80%)

The table below demonstrates some possible cases.

Student	Semester mark	Exam mark	Final mark	Result
A	64%	60%	$(64\% \times 0,2) + (60\% \times 0,8) =$ $60,8\% = \mathbf{61\%}$	Pass
B	24%	50%	$(24\% \times 0,2) + (50\% \times 0,8) =$ $44,8\% = \mathbf{45\%}$	Supplementary exam
C	100%	44%	$(100\% \times 0,2) + (44\% \times 0,8) =$ $55,2\% = \mathbf{55\%}$	Pass
D	0%	40%	$(0\% \times 0,2) + (40\% \times 0,8) =$ $= \mathbf{32\%}$	Fail

To pass this module, you need to obtain a final mark of 50% or more.

- If your final mark is 50% or higher, you will pass.
- If your final mark falls within the range of 40%-49%, you will not pass. However, you will qualify for a supplementary examination.
- If your final mark is less than 40%, you will fail and you will have to reregister for the module.
- Take special note of cases B and C in the table of examples above. In case B, although the student has passed the examination (50%), he or she has failed because of a bad semester mark (24%). In case C, the student has failed the examination (44%) but has nevertheless passed owing to an excellent semester mark.

Semester mark

Your semester mark is based on the marks you obtain for Assignments 01 and 02. The assignments are weighted differently: the first assignment counts 40% of your semester mark, while the second counts 60%. You will receive no marks for an assignment if you do not submit it, or if you submit it late.

The following examples illustrate how your semester mark is calculated.

Student A

Assignment	Mark	Mark %	Weight	Contribution to semester mark	Exam credits
01	18/30	60	0,4	$60\% \times 0,4 = 24\%$	1
02	24/30	80	0,6	$80\% \times 0,6 = 48\%$	0
Semester mark total				72%	

Student B

Assignment	Mark	Mark %	Weight	Contribution to semester mark	Exam credits
01	12/30	40	0,4	$40\% \times 0,4 = 16\%$	1
02	Submitted late or not submitted	0	0,6	$0\% \times 0,6 = 0\%$	0
Semester mark total				16%	

We will send you the answers to the assignment questions in a tutorial letter, which you will receive after the due date for Assignment 02. Following the recommended study programme (see 7.5 above) should help you to cover the full syllabus in the time available.

8.2 The examination

The examination consists of a two-hour paper. To answer the paper within the time limit, you need a good grasp of what is important, you need to supply concise but clear answers, and you need to plan your time well. Please consult study guide for more details on the examination paper.

We wish you every success in your studies!

Ms Lydia Leshoro 012 433 4625 lesholat@unisa.ac.za

Prof OA Akanbi 012 433 4637 akanboa@unisa.ac.za

9 ASSIGNMENT QUESTIONS

Assignment 01

- is **COMPULSORY**. If you do not submit this assignment, you will not be allowed to write the examination.
- must be submitted on or before the due date. We suggest that you keep a copy of your answers to Assignment 01 as proof of submission in case your assignment gets lost.
- contributes towards your semester mark.
- consists of 10 + 30 multiple-choice questions.

Assignment 02

- is optional, but contributes 60% towards your semester mark and therefore contributes to your final mark.
- consists of 30 multiple-choice questions.

There are two different assignments for Semester 1 (see sections 9.1 and 9.2) and 2 assignments for Semester 2 (see sections 9.3 and 9.4).

ASSIGNMENTS: SEMESTER 1

9.1 Assignment 01 for semester 1 (Compulsory)

ECS3701	1st semester
Unique number	880423
Due date	03 March 2014
Material	Chapters 1-6

Fill in your answers on an assignment mark-reading sheet. Please make sure that you also complete the following sections on the assignment mark-reading sheet:

- your name, address and **student number**
- the module code
- the **unique assignment** number as indicated in the table above. Note that there are different unique numbers for the first and second semesters.

Ten questions on student profile

1.01 Which ONE of the following is most true regarding your current registration?

- [1] This is my first registration.
- [2] I have been registered for this module before but have never written the examination.
- [3] I have written the examination for this module once before.
- [4] I have written the examination for this module twice before.
- [5] I have written the examination for this module three or more times before.

1.02 In my matric results (students who do not have a South African matric please select the option you think is the most relevant)

- [1] I passed Mathematics (higher grade) or equivalent with a C-symbol or higher.
- [2] I passed Mathematics (higher grade) or equivalent with a D-symbol or lower.
- [3] I passed Mathematics (standard grade) or equivalent with a C-symbol or higher.
- [4] I passed Mathematics (standard grade) or equivalent with a D-symbol or lower.
- [5] I did not do take Mathematics for matric or I failed it.

1.03 In my matric results (students who do not have a South African matric, please choose the option you think is the most relevant)

- [1] I passed English (higher grade) or equivalent with a C-symbol or higher.
- [2] I passed English (higher grade) or equivalent with a D-symbol or lower.
- [3] I passed English (standard grade) or equivalent with a C-symbol or higher.
- [4] I passed English (standard grade) or equivalent with a D-symbol or lower.
- [5] I did not do take English for matric or I failed it.

1.04 Which ONE of the following describes your situation best?

- [1] I am a full-time student who does not work at all.
- [2] I am a full-time student who works part-time for extra pocket money (not to pay for my studies).
- [3] I am a full-time student who works part-time to pay for my studies.
- [4] I work full-time and study only after hours, and the work that I do is not related to my degree at all.
- [5] I work full-time and study only after hours, and the work that I do is related to my degree.

Question on administrative matters

1.05 Regarding service delivery by the Economics Department:

- [1] I have never tried to contact the Economics Department.
- [2] I have contacted the department but they were not helpful.
- [3] I have tried to contact the department telephonically but was not successful.
- [4] I have tried to contact the department by e-mail but never received a reply.
- [5] I have contacted the department and was satisfied with the service.

Questions on study material and study programme

1.06 With regard to the study guide ...

- [1] the section(s) of the study guide that I had to study to complete this assignment helped me to work through the textbook systematically.
- [2] the section(s) of the study guide that I had to study to complete this assignment did not help me to understand the study material in the textbook better.
- [3] the section(s) of the study guide that I had to study to complete this assignment was totally irrelevant to the assignment questions.
- [4] I did not use the study guide at all although I have one.
- [5] I have not received a study guide.

1.07 Do you plan to attend the group discussion classes for this module?

- [1] Yes.
- [2] No, I can cope on my own.
- [3] No, I have to work.
- [4] No, it is too far from where I live.
- [5] No, for any other reason.

Questions on technology access

1.08 Which ONE of the following best describes your access to SMS messages?

- [1] I can receive SMS messages on my own cell phone.
- [2] I can receive SMS messages on the cell phone of someone who lives with me.
- [3] I can receive SMS messages on the cell phone of someone I know but who does not live with me.
- [4] I cannot receive SMS messages at all.
- [5] I do not know what an SMS message is.

1.09 Which ONE of the following best describes your access to a computer?

- [1] I have unlimited access to a computer.
- [2] I have access to a computer but do not know how to use it for study purposes.
- [3] I have to pay to use a computer (e.g. internet café).
- [4] I can only use a computer as a favour.
- [5] I do not have any access to a computer.

1.10 Which ONE of the following applies to you?

- [1] I do not have access to either the internet or e-mail.
- [2] I have access to e-mail.
- [3] I have access to the internet.
- [4] I have access to both the internet and e-mail.

Questions on monetary economics

These questions are based on chapters 1-6.

Choose the one alternative that best completes the statement or answers the question.

1.11 Money is defined as ...

- [1] a risk-free repository of spending power.
- [2] anything that is generally accepted in payment for goods and services or in the repayment of debt.
- [3] the unrecognised liability of governments.
- [4] bills of exchange.

1.12 A common stock is a claim on a corporation's _____

- [1] earnings and assets.
- [2] expenses.
- [3] debt.
- [4] liabilities.

1.13 Banks and other financial institutions engage in financial intermediation, which ...

- [1] has no effect on economic performance.
- [2] involves borrowing from investors and lending to savers.
- [3] can hurt the performance of the economy.
- [4] can benefit economic performance.

1.14 Everything else held constant, a decline in interest rates will cause spending on housing to ...

- [1] rise.
- [2] either rise, fall, or remain the same.
- [3] fall.
- [4] remain unchanged.

1.15 Which of the following statements is correct?

- [1] The inflation rate is measured as the rate of change in the government budget deficit.
- [2] The aggregate price level is measured as the rate of change in the inflation rate.
- [3] The average price of goods and services in an economy is called the aggregate price level.
- [4] Money supply is defined as the amount of South African Reserve Bank notes and coins in circulation.

1.16 Which of the following can be described as involving direct finance?

- [1] An insurance company buys shares of common stock in the over-the-counter markets.
- [2] People buy shares in a unit trust.
- [3] A corporation issues new shares of stock.
- [4] A pension fund manager buys a short-term corporate security in the secondary market.

1.17 Which of the following statements about the characteristics of debt and equities is true?

- [1] Bond holders are residual claimants.
- [2] Bonds pay dividends.
- [3] They can both be long-term financial instruments.
- [4] The income from bonds is typically more variable than that from equities.

1.18 When I purchase _____, I own a portion of a firm and have the right to vote on issues important to the firm and to elect its directors.

- [1] bills
- [2] bonds
- [3] notes
- [4] stock

1.19 Collateral is _____ the lender receives if the borrower does not pay back the loan.

- [1] a court order
- [2] a liability
- [3] a present
- [4] an asset

1.20 The problem created by asymmetric information before the transaction occurs is called _____, while the problem created after the transaction occurs is called _____.

- [1] costly state verification; free-riding
- [2] adverse selection; moral hazard
- [3] free-riding; costly state verification
- [4] moral hazard; adverse selection

1.21 Of money's three functions, the one that distinguishes money from other assets is its function as a _____.

- [1] store of value
- [2] medium of exchange
- [3] unit of account
- [4] standard of deferred payment

1.22 The conversion of a barter economy to one that uses money ...

- [1] increases efficiency by reducing the need to specialise.
- [2] does not increase economic efficiency.
- [3] increases efficiency by reducing the need to exchange goods and services.
- [4] increases efficiency by reducing transaction costs.

1.23 John notices that jackets are on sale for R100. In this case money is functioning as a

- [1] unit of account
- [2] commodity
- [3] store of value
- [4] medium of exchange

1.24 During the past two decades an important characteristic of the modern payments system has been the rapidly increasing use of ...

- [1] fiat money.
- [2] electronic fund transfers.
- [3] commodity monies.
- [4] checks and decreasing use of currency.

1.25 Which of the following is included in both M1A and M2 according to the South African definition?

- [1] "Other" demand deposits
- [2] Currency
- [3] Short-term deposits
- [4] Bonds

1.26 The concept of _____ is based on the common-sense notion that a rand paid to you in the future is, in general, less valuable to you than a rand today.

- [1] deflation
- [2] interest
- [3] future value
- [4] present value

1.27 An increase in the time to the promised future payment _____ the present value of the payment.

- [1] decreases
- [2] increases
- [3] is irrelevant to
- [4] has no effect on

- 1.28 A credit market instrument that provides the borrower with an amount of funds that must be repaid at the maturity date along with an interest payment is known as a ...
- [1] coupon bond.
 - [2] fixed-payment loan.
 - [3] simple loan.
 - [4] discount bond.
- 1.29 To say that a yield increased by twenty basis points means the interest rate increased by ...
- [1] 20 percentage points.
 - [2] 0,2 percentage points.
 - [3] 2 percentage points.
 - [4] 0,02 percentage points.
- 1.30 If you expect the inflation rate to be 4 per cent next year and a one-year bond has a yield to maturity of 7 per cent, then the real interest rate on this bond is ...
- [1] -3 per cent.
 - [2] -2 per cent.
 - [3] 3 per cent.
 - [4] 7 per cent.
- 1.31 A situation in which the quantity of bonds supplied exceeds the quantity of bonds demanded is called a condition of excess supply; because people want to sell _____ bonds than others want to buy, the price of bonds will _____.
- [1] fewer; rise
 - [2] more; rise
 - [3] fewer; fall
 - [4] more; fall
- 1.32 Consider only the bond demand curve: When the price of a bond decreases, all else equal, the bond demand curve _____.
- [1] shifts left
 - [2] does not shift
 - [3] inverts
 - [4] shifts right

1.33 Everything else held constant, when **stock prices** become _____ volatile, the demand curve for **bonds** shifts to the _____ and the interest rate _____.

- [1] less; left; does not change
- [2] more; right; rises
- [3] less; left; falls
- [4] more; right; falls

1.34 Everything else held constant, a decrease in the riskiness of bonds relative to alternative assets causes the demand for bonds to _____ and the demand curve to shift to the _____.

- [1] fall; right
- [2] rise; left
- [3] fall; left
- [4] rise; right

1.35 In the Keynesian liquidity preference framework, a decrease in the interest rate causes the demand curve for money to _____, everything else held constant.

- [1] invert
- [2] remain unchanged
- [3] shift right
- [4] shift left

1.36 The risk structure of interest rates is ...

- [1] the relationship among interest rates of different bonds with the same maturity.
- [2] the structure of how interest rates move over time.
- [3] the relationship among interest rates on bonds with different maturities.
- [4] the relationship among the term to maturity of different bonds.

1.37 A plot of the interest rates on default-free government bonds with different terms to maturity is called ...

- [1] a risk-structure curve.
- [2] an interest-rate curve.
- [3] a yield curve.
- [4] a default-free curve.

1.38 According to the expectations theory of the term structure ...

- [1] when the yield curve is downward sloping, short-term interest rates are expected to remain relatively stable in the future.
- [2] investors have strong preferences for short-term relative to long-term bonds, explaining why yield curves typically slope upward.
- [3] when the yield curve is steeply upward sloping, short-term interest rates are expected to remain relatively stable in the future.
- [4] yield curves should be equally likely to slope downward as slope upward.

1.39 According to the segmented markets theory of the term structure ...

- [1] interest rates on bonds of different maturities do not move together over time.
- [2] buyers of bonds do not prefer bonds of one maturity over another.
- [3] the interest rate on long-term bonds will equal an average of short-term interest rates that people expect to occur over the life of the long-term bonds.
- [4] buyers require an additional incentive to hold long-term bonds.

1.40 According to the liquidity premium theory of the term structure ...

- [1] yield curves should never slope downward.
- [2] interest rates on bonds of different maturities do not move together over time.
- [3] if yield curves are downward sloping, then short-term interest rates are expected to fall by so much that, even when the positive term premium is added, long-term rates fall below short-term rates.
- [4] bonds of different maturities are not substitutes.

9.2 Assignment 02 for semester 1 (Optional)

ECS3701	1 st semester
Unique number	887992
Due date	04 April 2014
Material	Chapters 8-11; 14-17.

Fill in your answers on an assignment mark-reading sheet. Please make sure that you also complete the following sections on the assignment mark-reading sheet:

- your name, address and student number
- the module code
- the unique assignment number as indicated in the table above. Note that there are different unique numbers for the first and second semester assignments.

Assignment 02

- is optional, but contributes 60% towards your semester mark and therefore your final mark.
- consists of 30 multiple-choice questions.

Choose the one alternative that best completes the statement or answers the question.

2.1 Of the four sources of external funding for non-financial businesses, the least often used in the United States is ...

- [1] bank loans.
- [2] stock.
- [3] bonds.
- [4] non-bank loans.

2.2 Which of the following is not one of the eight basic puzzles about financial structure?

- [1] Debt contracts are typically extremely complicated legal documents that place substantial restrictions on the behaviour of the borrower.
- [2] There is very little regulation of the financial system.
- [3] Collateral is a prevalent feature of debt contracts for households and also for business.
- [4] Indirect finance, which involves the activities of financial intermediaries, is many times more important than direct finance, in which businesses raise funds directly from lenders in financial markets.

2.3 By bundling share purchases of many investors together, mutual funds can take advantage of economies of scale and thereby lower ...

- [1] transaction costs.
- [2] adverse selection.
- [3] moral hazard.
- [4] diversification.

2.4 A borrower who takes out a loan usually has better information about the potential returns and risk of the investment projects he plans to undertake than does the lender. This inequality of information is called ...

- [1] asymmetric information.
- [2] moral hazard.
- [3] non-collateralised risk.
- [4] adverse selection.

2.5 The problem faced by the lender that the borrower may take on additional risk after receiving the loan is called ...

- [1] transaction costs.
- [2] moral hazard.
- [3] diversification.
- [4] adverse selection.

2.6 External financing by _____ should be more important in developing countries than in industrialised countries because information about private firms is more difficult to collect in developing countries.

- [1] stock
- [2] bonds
- [3] financial intermediaries
- [4] direct lending

2.7 The principal-agent problem would not occur if _____ of a firm had complete information about actions of the _____.

- [1] managers; customers
- [2] owners; managers
- [3] managers; owners
- [4] owners; customers

2.8 One way the venture capital firm avoids the free-rider problem is by ...

- [1] prohibiting the borrowing firm from replacing management.
- [2] prohibiting the sale of equity in the firm to anyone except the venture capital firm.
- [3] prohibiting members from serving on the board of directors.
- [4] requiring collateral equal to the value of the borrowed funds.

2.9 One possible reason for slower growth in developing and transition countries is ...

- [1] the lack of adverse selection and moral hazard problems.
- [2] strict accounting standards are too stringent for the banks to meet.
- [3] the weak link between government and financial intermediaries.
- [4] capital may not be directed to its most productive use.

2.10 The high growth rate in China in the last twenty years has similarities to the high growth rate of _____ during the 1950s and 1960s.

- [1] the United States
- [2] Mexico
- [3] Brazil
- [4] the Soviet Union

2.11 A financial crisis occurs when an increase in asymmetric information from a disruption in the financial system ...

- [1] reduces uncertainty in the economy and increases market efficiency.
- [2] increases economic activity.
- [3] allows for a more efficient use of funds.
- [4] causes severe adverse selection and moral hazard problems that make financial markets incapable of channelling funds efficiently.

2.12 Financial crises in advanced economies might start from a ...

- [1] currency mismatch.
- [2] debt deflation.
- [3] mismanagement of financial innovations.
- [4] currency crisis.

2.13 When financial intermediaries deleverage, firms cannot fund investment opportunities resulting in ...

- [1] an increased opportunity for growth.
- [2] a contraction of economic activity.
- [3] an economic boom.
- [4] a call for government regulation.

2.14 Factors likely to cause a financial crisis in emerging market countries include

- [1] a foreign exchange crisis.
- [2] too strong oversight of the financial industry.
- [3] severe fiscal imbalances.
- [4] decreases in foreign interest rates.

2.15 When a new depositor opens a current account at First National Bank, the bank's assets _____ and its liabilities _____.

- [1] increase; increase
- [2] decrease; increase
- [3] decrease; decrease
- [4] increase; decrease

2.16 Which of the following are primary concerns of the bank manager?

- [1] Maintaining high levels of capital and thus maximising the returns to the owners
- [2] Acquiring funds at a relatively high cost, so that profitable lending opportunities can be realised
- [3] Extending loans to borrowers who will pay low interest rates, but who are poor credit risks
- [4] Maintaining sufficient reserves to minimise the cost to the bank of deposit outflows

2.17 Banks hold capital because

- [1] higher capital increases the returns to the owners.
- [2] it increases the likelihood of bankruptcy.
- [3] they are required to by regulatory authorities.
- [4] higher capital increases the return on equity.

2.18 Conditions that likely contributed to a credit crunch during the global financial crisis include:

- [1] regulated hikes in bank capital requirements.
- [2] increases in reserve requirements.
- [3] falling interest rates that raised interest rate risk, causing banks to choose to hold more capital.
- [4] capital shortfalls caused in part by falling real estate prices.

2.19 From the standpoint of _____, specialisation in lending is surprising but makes perfect sense when one considers the _____ problem.

- [1] adverse selection; diversification
- [2] moral hazard; diversification
- [3] diversification; adverse selection
- [4] diversification; moral hazard

2.20 Depositors lack of information about the quality of bank assets can lead to ...

- [1] bank panics.
- [2] asset transformation.
- [3] sequencing.
- [4] bank booms.

2.21 Regulators attempt to reduce the riskiness of banks' asset portfolios by ...

- [1] establishing a minimum interest rate floor that banks can earn on certain assets.
- [2] encouraging banks to hold risky assets such as common stocks.
- [3] requiring collateral for all loans.
- [4] limiting the amount of loans in particular categories or to individual borrowers.

2.22 The three players in the money supply process include ...

- [1] banks, borrowers, and the central bank.
- [2] banks, depositors, and borrowers.
- [3] banks, depositors, and the US Treasury.
- [4] banks, depositors, and the central bank.

2.23 The monetary base minus currency in circulation equals ...

- [1] the non-borrowed base.
- [2] the borrowed base.
- [3] reserves.
- [4] discount loans.

2.24 When the Federal Reserve purchases a government bond from a bank, reserves in the banking system _____ and the monetary base _____, everything else held constant.

- [1] increase; increases
- [2] increase; decreases
- [3] decrease; decreases
- [4] decrease; increases

2.25 If the required reserve ratio is equal to 10 per cent, a single bank can increase its loans up to a maximum amount equal to ...

- [1] 10 per cent of its excess reserves.
- [2] 10 times its excess reserves.
- [3] its excess reserves.
- [4] its total reserves.

2.26 The formula for the simple deposit multiplier can be expressed as ...

- [1] $\Delta R = (1/rr) \times \Delta D$
- [2] $\Delta rr = (1/R) \times \Delta T$
- [3] $\Delta R = (1/rr) \times \Delta T$
- [4] $\Delta D = (1/rr) \times \Delta R$

2.27 The quantity of reserves supplied equals _____

- [1] required reserves plus borrowed reserves.
- [2] total reserves minus required reserves.
- [3] non-borrowed reserves plus borrowed reserves.
- [4] non-borrowed reserves minus borrowed reserves.

2.28 _____ are the most important monetary policy tool because they are the primary determinant of changes in the _____, the main source of fluctuations in the money supply.

- [1] Open market operations; monetary base
- [2] Changes in reserve requirements; money multiplier
- [3] Changes in reserve requirements; monetary base
- [4] Open market operations; money multiplier

2.29 The starting point for understanding how exchange rates are determined is a simple idea called _____, which states: if two countries produce an identical good, the price of the good should be the same throughout the world, no matter which country produces it.

- [1] the law of one price
- [2] Gresham's law
- [3] purchasing power parity
- [4] arbitrage

2.30 The theory of portfolio choice suggests that the most important factor affecting the demand for domestic and foreign assets is the _____ on these assets relative to one another.

- [1] expected return
- [2] liquidity
- [3] risk
- [4] interest rate

ASSIGNMENTS: SEMESTER 2

9.3 Assignment 01 for semester 2 (compulsory)

ECS3701	2nd semester
Unique number	847958
Due date	18 August 2014
Material	Chapters 1-6

Fill in your answers on an assignment mark-reading sheet. Please make sure that you also complete the following sections on the assignment mark-reading sheet:

- your name, address and **student number**
- the module code
- the unique assignment number as indicated in the table above. Note that there are different assignment questions and different unique numbers for the first and second semester assignments.

Ten questions on student profile

1.01 Which ONE of the following is most true regarding your current registration?

- [1] This is my first registration.
- [2] I have been registered for this module before but have never written the examination.
- [3] I have written the examination for this module once before.
- [4] I have written the examination for this module twice before.
- [5] I have written the examination for this module three or more times before.

1.02 In my matric results (students who do not have a South African matric, please select the option you think is the most relevant) ...

- [1] I passed Mathematics (higher grade) or equivalent with a C-symbol or higher.
- [2] I passed Mathematics (higher grade) or equivalent with a D-symbol or lower.
- [3] I passed Mathematics (standard grade) or equivalent with a C-symbol or higher.
- [4] I passed Mathematics (standard grade) or equivalent with a D-symbol or lower.
- [5] I did not do take Mathematics for matric or I failed it.

1.03 In my matric results (students who do not have a South African matric, please choose the option you think is the most relevant)

- [1] I passed English (higher grade) or equivalent with a C-symbol or higher.
- [2] I passed English (higher grade) or equivalent with a D-symbol or lower.
- [3] I passed English (standard grade) or equivalent with a C-symbol or higher.
- [4] I passed English (standard grade) or equivalent with a D-symbol or lower.
- [5] I did not do take English for matric or I failed it.

1.04 Which ONE of the following describes your situation best?

- [1] I am a full-time student who does not work at all.
- [2] I am a full-time student who works part-time for extra pocket money (not to pay for my studies).
- [3] I am a full-time student who works part-time to pay for my studies.
- [4] I work full-time and study only after hours, and the work that I do is not related to my degree at all.
- [5] I work full-time and study only after hours, and the work that I do is related to my degree.

Question on administrative matters

1.05 Regarding service delivery by the Economics Department:

- [1] I have never tried to contact the Economics Department.
- [2] I have contacted the department but they were not helpful.
- [3] I have tried to contact the department telephonically but was not successful.
- [4] I have tried to contact the department by e-mail but never received a reply.
- [5] I have contacted the department and was satisfied with the service.

Questions on study material and study programme

1.06 With regard to the study guide ...

- [1] the section(s) of the study guide that I had to study to complete this assignment, helped me to work through the textbook systematically.
- [2] the section(s) of the study guide that I had to study to complete this assignment, did not help me to understand the study material in the textbook better.
- [3] the section(s) of the study guide that I had to study to complete this assignment, was totally irrelevant to the assignment questions.
- [4] I did not use the study guide at all although I have one.
- [5] I have not received a study guide.

1.07 Do you plan to attend the group discussion classes for this module?

- [1] Yes.
- [2] No, I can cope on my own.
- [3] No, I have to work.
- [4] No, it is too far from where I live.
- [5] No, for any other reason.

Questions on technology access

1.08 Which ONE of the following best describes your access to SMS messages?

- [1] I can receive SMS messages on my own cell phone.
- [2] I can receive SMS messages on the cell phone of someone who lives with me.
- [3] I can receive SMS messages on the cell phone of someone I know but who does not live with me.
- [4] I cannot receive SMS messages at all.
- [5] I do not know what an SMS message is.

1.09 Which ONE of the following best describes your access to a computer?

- [1] I have unlimited access to a computer.
- [2] I have access to a computer but do not know how to use it for study purposes.
- [3] I have to pay to use a computer (e.g. internet café).
- [4] I can only use a computer as a favour.
- [5] I do not have any access to a computer.

1.10 Which ONE of the following applies to you?

- [1] I do not have access to either the internet or e-mail.
- [2] I have access to e-mail.
- [3] I have access to the internet.
- [4] I have access to both the internet and e-mail.

Questions on monetary economics

These questions are based on chapters 1-6.

Choose the one alternative that best completes the statement or answers the question.

1.11 Prior to almost all recessions since 1900, there has been a drop in ...

- [1] inflation.
- [2] the money stock.
- [3] interest rates.
- [4] the growth rate of the money stock.

- 1.12 The measure of the aggregate price level that is frequently the focus of the South African Reserve Bank is the ...
- [1] consumer price index.
 - [2] PCE (personal consumption expenditure) deflator.
 - [3] GDP (gross domestic product) deflator.
 - [4] producer price index.
- 1.13 Which of the following can be described as involving indirect finance?
- [1] You make a loan to your neighbour.
 - [2] A corporation buys a short-term security issued by another corporation in the primary market.
 - [3] You buy a US Treasury bill from the US Treasury.
 - [4] You buy shares in a mutual fund.
- 1.14 Because these securities are more liquid and generally have smaller price fluctuations, corporations and banks use the _____ securities to earn interest on temporary surplus funds.
- [1] capital market
 - [2] money market
 - [3] bond market
 - [4] stock market
- 1.15 The most liquid securities traded in the capital market are ...
- [1] treasury bonds.
 - [2] municipal bonds.
 - [3] mortgage-backed securities.
 - [4] corporate bonds.
- 1.16 Banks can lower the cost of information production by applying one information resource to many different services. This process is called ...
- [1] economies of scope.
 - [2] asset transformation.
 - [3] economies of scale.
 - [4] asymmetric information.

1.17 Conflicts of interest are a type of _____ problem that can occur when an institution provides multiple services.

- [1] discounting
- [2] free-riding
- [3] moral hazard
- [4] adverse selection

1.18 _____ are financial intermediaries that acquire funds by selling shares to many individuals and using the proceeds to purchase diversified portfolios of stocks and bonds.

- [1] Finance companies
- [2] Mutual funds
- [3] Investment banks
- [4] Credit unions

1.19 People hold money even during inflationary episodes when other assets prove to be better stores of value. This can be explained by the fact that money is ...

- [1] backed by gold.
- [2] a unique good for which there are no substitutes.
- [3] the only thing accepted in economic exchange.
- [4] extremely liquid.

1.20 A disadvantage of _____ made from precious metals is that it is very heavy and hard to transport from one place to another.

- [1] paper money
- [2] electronic money
- [3] fiat money
- [4] commodity money

1.21 Although _____ currency is lighter than coins made of metals, a disadvantage arising from modern technology is the ease of _____.

- [1] paper; counterfeiting
- [2] paper; transport
- [3] fiat; transport
- [4] commodity; counterfeiting

1.22 The M2 monetary aggregate contains everything that is in M1 plus other assets that are highly _____ (can be turned into cash quickly at very little cost).

- [1] consistent
- [2] liquid
- [3] stable
- [4] efficient

1.23 What is the present value of \$500,00 to be paid in two years if the interest rate is 5 per cent?

- [1] \$476,25
- [2] \$550,00
- [3] \$453,51
- [4] \$500,00

1.24 The _____ is calculated by multiplying the coupon rate times the par value of the bond.

- [1] present value
- [2] coupon payment
- [3] maturity payment
- [4] par value

1.25 If a \$1 000 face value coupon bond has a coupon rate of 3,75 per cent, then the coupon payment every year is _____

- [1] \$13,75
- [2] \$375,00.
- [3] \$3,75.
- [4] \$37,50.

1.26 A \$1 000 face value coupon bond with a \$60 coupon payment every year has a coupon rate of

- [1] 5 per cent.
- [2] 6 per cent.
- [3] 6 per cent.
- [4] 10 per cent.

1.27 The _____ of a coupon bond and the yield to maturity are inversely related.

- [1] par value
- [2] term
- [3] maturity date
- [4] price

- 1.28 The _____ is below the coupon rate when the bond price is _____ its par value.
- [1] discount rate; above
 - [2] yield to maturity; above
 - [3] discount rate; below
 - [4] yield to maturity; below
- 1.29 Which of the following \$5,000 face-value securities has the highest yield to maturity?
- [1] A 6 per cent coupon bond selling for \$5,000
 - [2] A 12 per cent coupon bond selling for \$4,500
 - [3] A 10 per cent coupon bond selling for \$5,000
 - [4] A 6 per cent coupon bond selling for \$5,500
- 1.30 When I purchase a 10 per cent coupon bond, I calculate a yield to maturity of 8 per cent. If I hold this bond to maturity, then my return on this asset is
- [1] 12 per cent.
 - [2] 8 per cent.
 - [3] 10 per cent.
 - [4] There is not enough information to determine the return.
- 1.31 The demand for houses decreases, all else equal, when ...
- [1] stock prices become more volatile.
 - [2] real estate prices are expected to increase.
 - [3] wealth increases.
 - [4] gold prices are expected to increase.
- 1.32 The bond demand curve is _____ sloping, indicating a(n) _____ relationship between the price and quantity demanded of bonds.
- [1] downward; inverse
 - [2] downward; direct
 - [3] upward; direct
 - [4] upward; inverse
- 1.33 The bond supply curve is _____ sloping, indicating a(n) _____ relationship between the price and quantity supplied of bonds.
- [1] upward; inverse
 - [2] downward; direct
 - [3] downward; inverse
 - [4] upward; direct

1.34 If the interest rate on a bond is above the equilibrium interest rate, there is an excess _____ for bonds and the bond price will _____.

- [1] supply; fall
- [2] supply; rise
- [3] demand; rise
- [4] demand; fall

1.35 Other things being equal, a decrease in the default risk of corporate bonds shifts the demand curve for corporate bonds to the _____ and the demand curve for treasury bonds to the _____.

- [1] left; right
- [2] left; left
- [3] right; left
- [4] right; right

1.36 A(n) _____ in the riskiness of corporate bonds will _____ the price of corporate bonds and _____ the yield on corporate bonds, all else equal.

- [1] increase; increase; increase
- [2] decrease; decrease; decrease
- [3] decrease; increase; increase
- [4] increase; decrease; increase

1.37 A decrease in the riskiness of corporate bonds will _____ the price of corporate bonds and _____ the price of treasury bonds, everything else held constant.

- [1] reduce; reduce
- [2] increase; increase
- [3] reduce; increase
- [4] increase; reduce

1.38 A decrease in default risk on corporate bonds _____ the demand for these bonds, and _____ the demand for default-free bonds, everything else held constant.

- [1] does not change; greatly increases
- [2] moderately lowers; does not change
- [3] lowers; increases
- [4] increases; lowers

1.39 An increase in the liquidity of corporate bonds, other things being equal, shifts the demand curve for corporate bonds to the _____ and the demand curve for treasury bonds shifts to the _____.

- [1] right; left
- [2] right; right
- [3] left; right
- [4] left; left

1.40 Everything else held constant, a decrease in marginal tax rates would likely have the effect of _____ the demand for municipal bonds, and _____ the demand for US government bonds.

- [1] decreasing; decreasing
- [2] increasing; decreasing
- [3] increasing; increasing
- [4] decreasing; increasing

9.4 Assignment 02 for semester 2 (Optional)

ECS3701	2nd semester
Unique number	868966
Due date	15 September 2014
Material	Chapters 8-11; 14-17

Fill in your answers on an assignment mark-reading sheet. Please make sure that you also complete the following sections on the assignment mark-reading sheet:

- your name, address and student number
- the module code
- the unique assignment number as indicated in the table above. Note that there are different unique numbers for the first and second semester assignments.

Choose the one alternative that best completes the statement or answers the question.

2.01 Which of the following statements is true concerning external sources of financing for non-financial businesses?

- [1] Stocks are a relatively unimportant source of finance for their activities.
- [2] Issuing marketable securities is the primary way that they finance their activities.
- [3] Bonds are the least important source of external funds to finance their activities.
- [4] Selling bonds directly to households is a major source of funding for businesses.

2.02 Which of the following is one of the eight basic puzzles about financial structure?

- [1] Issuing marketable securities is the primary way businesses finance their operations.
- [2] Direct finance, which involves the activities of financial intermediaries, is many times more important than indirect finance, in which businesses raise funds directly from lenders in financial markets.
- [3] Banks are the most important source of external funds to finance businesses.
- [4] Stocks are the least important source of finance for businesses.

2.03 The purpose of regulation of financial markets is primarily to ...

- [1] promote the provision of information to shareholders, depositors and the public.
- [2] guarantee that the maximum rates of interest are paid on deposits.
- [3] limit the profits of financial institutions.
- [4] increase competition among financial institutions.

2.04 Collateral is ...

- [1] a simple IOU that can be written on a piece of paper.
- [2] a typical legal document that specifies certain activities in which the borrower can engage.
- [3] assets that are pledged to a lender to guarantee payment.
- [4] an unsecured debt.

2.05 The free-rider problem occurs because

- [1] people who pay for information use it freely.
- [2] people who do not pay for information use it.
- [3] it is never profitable to produce information.
- [4] information can never be sold at any price.

2.06 Which of the following is not one of the factors that cause financial crises?

- [1] Fiscal imbalances.
- [2] Foreign exchange crisis.
- [3] Increase in uncertainty.
- [4] Banking crisis.

2.07 Banks earn profits by selling _____ with attractive combinations of liquidity, risk, and return, and using the proceeds to buy _____ with a different set of characteristics.

- [1] liabilities; assets
- [2] loans; deposits
- [3] assets; liabilities
- [4] securities; deposits

2.08 Because borrowers, once they have a loan, are more likely to invest in high-risk investment projects, banks face the _____ problem.

- [1] lemon
- [2] adverse credit risk
- [3] adverse selection
- [4] moral hazard

2.09 When banks involved in trading activities attempt to outguess markets, they are _____

- [1] diversifying.
- [2] speculating.
- [3] engaging in riskless arbitrage.
- [4] forecasting.

2.10 A R10 million deposit outflow from a bank has the immediate effect of ...

- [1] reducing deposits and securities by R5 million.
- [2] reducing deposits and capital by R10 million.
- [3] reducing deposits and reserves by R10 million.
- [4] reducing deposits and loans by R5 million.

2.11 The case for Federal Reserve independence does not include the idea that ...

- [1] political pressure would impart an inflationary bias to monetary policy.
- [2] a politically insulated FED would be more concerned with long-run objectives and thus be a defender of a sound dollar and a stable price level.
- [3] a Federal Reserve under the control of Congress or the president might make the so-called political business cycle more pronounced.
- [4] policy is always performed better by an elite group such as the Fed.

2.12 Which of the following is not a function of the SARB?

- [1] The SARB has the sole right to issue notes and coins.
- [2] The SARB acts as banker for the government.
- [3] The SARB always rescues commercial banks from going bankrupt.
- [4] The SARB manages the foreign exchange reserves.

2.13 If a member of the non-bank public sells a government bond to the SARB in exchange for currency, the monetary base will _____, but _____.

- [1] rise; currency in circulation will remain unchanged
- [2] remain unchanged; reserves will rise
- [3] remain unchanged; reserves will fall
- [4] rise; reserves will remain unchanged

2.14 Both _____ and _____ are monetary liabilities of the SARB.

- [1] currency in circulation; reserves
- [2] government securities; reserves
- [3] government securities; discount loans
- [4] currency in circulation; discount loans

2.15 The most common definition that monetary policy makers use for price stability is _...

- [1] low and stable deflation.
- [2] an inflation rate of zero per cent.
- [3] high and stable inflation.
- [4] low and stable inflation.

2.16 If the required reserve ratio is 10 per cent, currency in circulation is \$400 billion, checkable deposits are \$800 billion, and excess reserves total \$0,8 billion, then the money supply is _____

- [1] \$1 200.
- [2] \$1 200,8.
- [3] \$8 000.
- [4] \$8 400.

2.17 If the required reserve ratio is 5,0 per cent, the simple deposit multiplier is _____.

- [1] 5,0
- [2] 20,0
- [3] 0,05
- [4] 40,0

2.18 When the SARB purchases a government bond from a bank, reserves in the banking system _____ and the monetary base _____, everything else held constant.

- [1] increase; decreases
- [2] increase; increases
- [3] decrease; increases
- [4] decrease; decreases

2.19 Reserves are equal to the sum of ...

- [1] required reserves and excess reserves.
- [2] required reserves and vault cash reserves.
- [3] excess reserves and vault cash reserves.
- [4] vault cash reserves and total reserves.

2.20 Everything else held constant, an increase in the required reserve ratio on checkable deposits will cause ...

- [1] the money supply to rise.
- [2] the money supply to remain constant.
- [3] the money supply to fall.
- [4] checkable deposits to rise.

2.21 Accommodation policy affects the money supply by affecting the volume of _____ and the _____ .

- [1] excess reserves; money multiplier
- [2] excess reserves; monetary base
- [3] borrowed reserves; monetary base
- [4] borrowed reserves; money multipliers

2.22 The Fed uses three policy tools to manipulate the money supply: _____ , which affect reserves and the monetary base; changes in _____ , which affect the monetary base; and changes in _____ , which affect the money multiplier.

- [1] borrowed reserves; open-market operations; margin requirements
- [2] open-market operations; borrowed reserves; reserve requirements
- [3] open-market operations; borrowed reserves; margin requirements
- [4] borrowed reserves; open-market operations; reserve requirements

2.23 The SARB's lender-of-last-resort function ...

- [1] cannot prevent runs by large depositors.
- [2] is no longer necessary due to new financial regulations.
- [3] has proven to be ineffective.
- [4] creates a moral hazard problem.

2.24 Which of the following does not apply to South Africa?

- [1] The SARB uses open-market operations to maintain a liquidity shortage.
- [2] The bulk of open-market operations in South Africa consists of transactions in long-term government stock.
- [3] Since 1998 the Reserve Bank has also issued SARB debentures for open-market operations.
- [4] Open-market operations affect the amount of borrowed reserves.

2.25 A decrease in _____ increases the money supply since it causes the _____ to rise.

- [1] reserve requirements; monetary base
- [2] reserve requirements; money multiplier
- [3] margin requirements; monetary base
- [4] margin requirements; money multiplier

2.26 The monetary policy strategy that relies on a stable money-income relationship is known as ...

- [1] exchange-rate targeting.
- [2] monetary targeting.
- [3] inflation targeting.
- [4] the implicit nominal anchor.

2.27 The time-inconsistency problem with monetary policy tells us that if policy makers use discretionary policy, there is a higher probability that the _____ will be higher, compared to policy makers following a behaviour rule.

- [1] inflation rate
- [2] interest rate
- [3] unemployment rate
- [4] foreign exchange rate

2.28 Which of the following criteria need not be satisfied for choosing an intermediate target?

- [1] The variable must be measurable.
- [2] The variable must be controllable.
- [3] The variable must be predictable.
- [4] The variable must be transportable.

2.29 In both New Zealand and Canada, what has happened to the unemployment rate since the countries adopted inflation targeting?

- [1] The unemployment rate increased sharply.
- [2] The unemployment rate remained constant.
- [3] The unemployment rate has declined substantially after a sharp increase.
- [4] The unemployment rate declined sharply immediately after the inflation targets were adopted.

2.30 Which of the following is not an advantage of inflation targeting?

- [1] There is an immediate signal on the achievement of the target.
- [2] Inflation targeting reduces the effects of inflation shocks.
- [3] There is simplicity and clarity of the target.
- [4] Inflation targeting does not rely on a stable money-inflation relationship.