

# **Tutorial Letter 101/3/2018**

**Monetary Economics III**

**ECS3701**

**Semesters 1 and 2**

**Department of Economics**

This tutorial letter contains important information  
about your module.

BARCODE

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**Please note:**

This tutorial letter should be read in conjunction with the Study @ Unisa brochure and Tutorial Letters **ECSALL/301/3/2014** and **ECSALL/302/3/2014**

We recommend that you register for and use myUnisa (see Study @ 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 timetables and results, joining online discussion forums and many more.

Dear Student

Welcome to Monetary Economics III

## **1 INTRODUCTION**

### **1.1 Tutorial matter**

This tutorial letter contains important information on the scheme of work, resources and assignments for this module. Please read it carefully and consult it whenever you need to as you work through the study material, prepare your assignments, prepare for the examination and pose 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 and the role of monetary policy to prevent inflation

### 3 LECTURERS AND CONTACT DETAILS

#### 3.1 Lecturers

The primary lecturer for this module is:

<b>ECS3701</b>	<b>Mr Cobus Vermeulen (module leader)</b> Tel: 012 433 4639 E-mail: <a href="mailto:vermejc@unisa.ac.za">vermejc@unisa.ac.za</a> Office: Club 1 Building, Hazelwood campus, Room 2-35
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The module team will be communicated to students at the start of the new semester.

#### 3.2 Lecturer availability

The lecturers for this module will be available to take phone calls or answer e-mail enquiries on academic matters and/or to attend to students who may prefer to visit personally for academic engagement. However, the days and times of lecturers' availability will be communicated in the module page on myUnisa. These days and times are subject to change from time to time in order to accommodate the lecturers' work schedule and other commitments. Possible changes in your lecturers' availability will be communicated in advance through the **ANNOUNCEMENTS** option on myUnisa. Students are advised to check the module page on myUnisa, especially before visiting your lecturers' offices for academic enquiries/engagements.

#### 3.3 Administrative enquiries

If you have any administrative enquiries, please contact the department's administrative coordinator, Ms Mpho Mudau. She will then channel enquiries to the relevant lecturer. Her contact details are as follows:

<b>Ms Mpho Mudau</b> <b>Administrative Coordinator</b> <b>Economics Department</b> <b>College of Economics and Management Sciences</b> Tel: 012 433 4686 E-mail: <a href="mailto:lekwams@unisa.ac.za">lekwams@unisa.ac.za</a>
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Unfortunately, your lecturers cannot assist you with administrative queries, for instance, registrations, examination dates, release of assignment or examination marks etc.

## 4 RESOURCES

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. 2017. *Third year Monetary Economics for UNISA*. 1<sup>st</sup> edition. Boston: Pearson Custom.

#### **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](mailto: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 The study guide

As mentioned above, 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 fully explain all the 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 Other resources – printed support material

Because we want you to be successful in this online module, we also provide you with some of the study material in printed format. This will allow you to read the study material even when you are not online.

This printed study material will be sent to you at the beginning of the semester, but you do not have to wait to receive it to start studying – you can go online as soon as you have registered and all your study materials will be there. For this reason, you do not need to wait before you start with the module. The material we will send you is merely an **offline** copy of the formal content for the online module. Having an offline copy will also give you the opportunity to do a lot of the studying for this module **without** having to go onto the internet or to an internet café. This will save you money, of course, and you will be able to take as much time as you need to read and to re-read the material and do the activities.

It is very important that you log into myUnisa regularly. We recommend that you do this at least once a week or every ten days to do the following:

- **Check for new announcements.** You can also set up your myLife email so that you receive the announcement emails on your cellphone.
- **Do the discussion forum activities.** When you do the activities for each unit, we want you to share them with the other people in your group. You can read the instructions and even prepare your answers, but you need to go online to post your messages.
- **Engage with your e-tutor.** You will be assigned an e-tutor who can assist you with the **contents only**. They are not equipped to assist with any administrative matters. Pose your module content-based questions to them and they will assist online.
- **Do other online activities.** For some of the unit activities you will need to post something on the **Blog**, take a quiz or complete a survey in **Self-Assessment**. Do not skip these activities because they will help you to complete the assignments and the activities for the module.

We hope that this system will help you to succeed in this online module by giving you extra ways to study the material and practise all the activities. Remember, you **MUST** go online regularly to complete the activities and assignments on time and to get the most out of this module.

Remember, the printed support material is a backup of everything that is found online on myUnisa. It does not contain any extra information. **In other words, you should NOT wait for the printed support material to arrive before you start studying.**

## 5 STUDENT SUPPORT SERVICES

For information on the various student support systems and services available at Unisa (e.g. student counselling, tutorial classes, language support), please consult Study @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 that will help you to communicate with your lecturers, with other students and with the administrative departments at Unisa – all through the computer and the internet.

You can start at the main Unisa website at <http://www.unisa.ac.za> and then click on the orange myUnisa block. This will take you to the myUnisa website. To go to the myUnisa website directly, type in <https://my.unisa.ac.za>. When you are on the myUnisa website, click on the "Claim UNISA Login" tab on the right-hand side of the screen. You will then be prompted to give your student number to claim your initial myUnisa details as well as your myLife login details.

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

### 5.3 What does it mean to study fully online?

Studying modules that are fully online is totally different from studying some of your other modules at Unisa.

- **All your study material and learning activities for online modules are designed to be delivered online on myUnisa.** Although we give you a printed copy to support your studies, the module is designed to be delivered online.
- **Submission of your assignments should preferably be done online.** This means that you do all your activities and submit all your assignment on myUnisa. You can also post your assignments to Unisa via the South African Post Office.
- **All the communication between yourself and the university happens online** by e-mail, in the discussions and through the e-tutors. You can use all of these ways to ask questions and contact your lecturers and e-tutors. This also means that your lecturers will communicate with you in the same way – through e-mail, with announcements, in discussions and with questions and answers.

**Ms Portia Ngcobo**  
**College Information Coordinator**  
**College of Economics and Management Sciences**  
**Tel: 012 429 3925**  
**E-mail: [CEMSenquiries@unisa.ac.za](mailto:CEMSenquiries@unisa.ac.za)**



## **6 STUDY 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 part of the learning material for this module. When you do an assignment, study the reading texts, consult other resources and 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 enquiry 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 (details below). You may also find information on myUnisa.

### 7.3 Submitting assignments

You may submit Assignment 01 on mark-reading sheets either by post or electronically via myUnisa. However, we recommend that you submit the assignments electronically. The advantage of this is 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 Study @ Unisa.

### 7.4 Comments and feedback on assignments

You will receive the correct answers to the multiple-choice questions of Assignments 01 and 02 in follow-up Tutorial Letters 201 and 202, respectively. These tutorial letters will be sent to all registered students and 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, we give you a recommended study programme below, which includes time for assignment preparation and the assignment due dates. You will find the assignments in section 9 of this tutorial letter. Following the recommended study programme should help you to cover the full syllabus in the time available.

## Recommended study programme for ECS3701

Semester 1	Week	Date	Part	Learning Unit(s)	Due dates
	1	5 Feb–9 Feb	1	1, 2	
	2	12 Feb–16 Feb	1, 2	3, 4	
	3	19 Feb–23 Feb	2	5, 6	
	4	26 Feb–2 Mar	1, 2	Complete and submit Assignment 01	<b>5 Mar</b>
	5	5 Mar–9 Mar	3	8, 9, 10, 11	
	6	12 Mar–16 Mar	4	14, 15	
	7	19 Mar–23 Mar	4	16, 17	
	8	26 Mar–30 Mar	3, 4	Complete and submit Assignment 02	
	9	2 Apr–6 Apr	6	20, 21	
	10	9 Apr–13 Apr	6	24	
	11	16 Apr–20 Apr	6	25, 26	<b>3 Apr</b>
	12	23 Apr– Exam	All	Revision	

Semester 2	Week	Date	Part	Learning Unit(s)	Due dates
	1	23 Jul–27 Jul	1	1, 2	
	2	30 Jul–3 Aug	1, 2	3, 4	
	3	6 Aug–10 Aug	2	5, 6	
	4	13 Aug–17 Aug	1, 2	Complete and submit Assignment 01	<b>20 Aug</b>
	5	20 Aug–24 Aug	3	8, 9, 10, 11	
	6	27 Aug–31 Aug	4	14, 15	
	7	3 Sept –7 Sept	4	16, 17	
	8	10 Sept–14 Sept	3, 4	Complete and submit Assignment 02	<b>17 Sept</b>
	9	17 Sept–21 Sept	6	20, 21	
	10	24 Sept–28 Sept	6	24	
	11	1 Oct–5 Oct	6	25, 26	
	12	8 Oct–Exam	All	Revision	

## 8 HOW THE EXAMINATION SYSTEM WORKS

For general information about examinations, consult Study @ 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 20% of your final mark.

Assignment 01 is **compulsory**. It consists of 20 multiple-choice questions. To be allowed to write the examination, you **must** submit Assignment 01 on or before 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, as the mark you obtain for Assignment 02 will count 60% of your semester mark. This also consists of 20 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%), the student has failed because of a poor semester mark (24%). In case C, the student has failed the examination (44%) but, nevertheless, has passed owing to an excellent semester mark (100%).

## Semester mark

Your semester mark is based on the marks you obtain for Assignments 01 and 02. As already mentioned, 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%	

## 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 the study guide for more details on the examination paper.

We wish you every success in your studies!

Your lecturers

## 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 30 multiple-choice questions. The first 20 questions are content-based and the last 10 questions are on student profile.

### 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 two assignments for Semester 2 (see sections 9.3 and 9.4).

## 9.1 Assignment 01 for Semester 1 (Compulsory)

ECS3701	1 <sup>st</sup> semester
Unique number	829668
Due date	5 March 2018
Material	Learning units 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.
- **unique assignment** number as indicated in the table above. Note that there are different unique numbers for the first and second semesters.

### 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.

1.01 GDP measured with constant prices is referred to as \_\_\_\_\_.

- [1] nominal GDP.
- [2] CPI.
- [3] real GDP.
- [4] the GDP deflator.

1.02 Money is defined as \_\_\_\_\_.

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



1.03 Everything else held constant, an increase in interest rates on student loans...

- [1] increases costs for students with no loans.
- [2] increases the cost of a university education.
- [3] reduces the cost of a university education.
- [4] has no effect on educational costs.

1.04 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 spenders.
- [3] involves borrowing from investors and lending to savers.
- [4] results in asymmetric information problems.

1.05 Everything else held constant, an increase in interest rates will cause spending on housing to \_\_\_\_\_

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

1.06 The process where financial intermediaries create and sell low-risk assets and use the proceeds to purchase riskier assets is known as...

- [1] risk sharing.
- [2] risk aversion.
- [3] risk neutrality.
- [4] risk selling.

1.07 Which of the following statements are correct?

- [1] Inflation rate is measured as the rate of change in the budget deficit.
- [2] The aggregate price level is synonymous to 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 in circulation.

1.08 When paper currency is decreed by governments as legal tender, legally it must be \_\_\_\_\_.

- [1] paper currency backed by gold.
- [2] a precious metal such as gold or silver.
- [3] accepted as payment for debts.
- [4] convertible into an electronic payment.

1.09 Of the following, the largest is...

- [1] money market deposit accounts.
- [2] demand deposits.
- [3] M1.
- [4] M2.

1.10 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.

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

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

1.12 A hyperinflation is...

- [1] a period of extreme inflation, generally greater than 50% per month.
- [2] a period of anxiety caused by rising prices.
- [3] an increase in output caused by higher prices.
- [4] impossible today because of tighter regulations.

1.13 A disadvantage of \_\_\_\_\_ is that it is very heavy and hard to transport from one place to another.

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

1.14 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] simple loan.
- [2] discount bond.
- [3] coupon bond.
- [4] fixed-payment loan.

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

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

1.16 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] fewer; fall
- [3] more; rise
- [4] more; fall

1.17 The sum of the current yield and the rate of capital gain is called the...

- [1] rate of return.
- [2] discount yield.
- [3] perpetuity yield.
- [4] par value.

1.18 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

1.19 An increase in the expected rate of inflation will \_\_\_\_\_ the expected return on bonds relative to that on \_\_\_\_\_ assets, everything else held constant.

- [1] reduce; real
- [2] raise; real
- [3] reduce; financial
- [4] raise; financial

1.20 In Keynes's liquidity preference framework...

- [1] the demand for bonds must equal the supply of money.
- [2] the demand for money must equal the supply of bonds.
- [3] an excess demand of bonds implies an excess demand for money.
- [4] an excess supply of bonds implies an excess demand for money.

**Ten questions on your student profile**

1.21 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.

1.22 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.

1.23 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.

1.24 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.

## Questions on administrative matters

1.25 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

1.26 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.

1.27 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**

1.28 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.

1.29 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.

1.30 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.

## 9.2 Assignment 02 for Semester 1 (Optional)

ECS3701	1 <sup>st</sup> semester
Unique number	687488
Due date	03 April 2018
Material	Learning Units 8–26

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.
- **unique assignment** number as indicated in the table above. Note that there are different unique numbers for the first and second semesters.

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

2.1 Of the four sources of external funding for nonfinancial businesses, the least often used in the U.S. is

- [1] bank loans.
- [2] stock.
- [3] bonds.
- [4] nonbank 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 both households and 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] transactions 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] noncollateralized 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] transactions costs
- [2] moral hazard.
- [3] diversification.
- [4] adverse selection.

2.6 External financing by \_\_\_\_\_ should be more important in developing countries than in industrialized 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 checking account at the 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 maximizing the returns to the owners.
- [2] Acquiring funds at a relatively high cost, so that profitable lending opportunities can be realized
- [3] Extending loans to borrowers who will pay low interest rates, but who are poor credit risks
- [4] Maintaining sufficient reserves to minimize 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 \_\_\_\_\_, specialization 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 U.S. 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 percent, a single bank can increase its loans up to a maximum amount equal to

- [1] 10 percent 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] nonborrowed reserves plus borrowed reserves.
- [4] nonborrowed 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

### 9.3 Assignment 01 for Semester 2 (compulsory)

ECS3701	2nd semester
Unique number	728689
Due date	20 August 2018
Material	Learning units 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.

#### 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.

1.01 A common stock is

- [1] the earnings and assets of a company.
- [2] an expense.
- [3] a share of ownership in a corporation.
- [4] a liability.

1.02 A business cycle

- [1] has no effect on economic performance.
- [2] involves borrowing from investors and lending to savers.
- [3] is the upward movement of the aggregate output in an economy.
- [4] is the upward and downward movement of the aggregate output in an economy.

1.03 Which of the following statements is correct?

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

1.04 Which of the following is the basic function of financial markets?

- [1] Selling of debts and equities.
- [2] Transferring funds from savers to borrowers.
- [3] Offering direct finance.
- [4] Channelling funds from borrowers to savers.

1.05 Which of the following is not a category of financial markets?

- [1] An insurance market.
- [2] Debt and equity market.
- [3] Money market.
- [4] Capital market.

1.06 Which of the following statements is correct?

- [1] A financial instrument can be traded over a short term only.
- [2] A commercial paper has maturity of over one year.
- [3] Stocks and corporate bonds are instruments with maturities of greater than one year.
- [4] Capital market instruments are traded over the short term.

1.07 Using money as a unit of account

- [1] strengthens its store of value.
- [2] lowers transaction costs.
- [3] promotes economic efficiency.
- [4] saves purchasing power.



1.08 Which of the following is correct?

- [1] Income is a flow and wealth is a stock.
- [2] Money represents a flow.
- [3] Wealth is made up of only money.
- [4] Bond is an example of income.

1.09 A coupon bond pays the \_\_\_\_\_ of the bond a \_\_\_\_\_ interest payment \_\_\_\_\_ until maturity date.

- [1] owner, varying, every month.
- [2] buyer, fixed, once a year.
- [3] investor, once-off, once a month.
- [4] owner, fixed, every year.

1.10 The concept of \_\_\_\_\_ is based on the 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] present value
- [4] future value

1.11 What is the present value of R300 to be paid after 4 years if the interest rate is 10%?

- [1] R250
- [2] R205
- [3] R204
- [4] R200

1.12 When the interest rate \_\_\_\_\_ the price of bonds \_\_\_\_\_.

- [1] increases, increases.
- [2] decreases, increases.
- [3] increases, stays the same.
- [4] decreases, stays the same.

1.13 Which of the following is true about returns and interest rates?

- [1] Returns are the increases in the interest rates.
- [2] There is no difference between returns and interest rates.
- [3] A rise in interest rates will give good returns on a bond since the price of bonds has increased.
- [4] The return on a bond can be negative if interest rates increase.

1.14 If Tony purchased a bond that has 30 years to maturity and the interest rate rises from 10% to 20%, he would have experienced \_\_\_\_\_.

- [1] capital loss.
- [2] capital gain.
- [3] good investment.
- [4] no change in return.

1.15 Real interest rate \_\_\_\_\_.

- [1] makes no allowance for inflation.
- [2] is synonymous to nominal interest rate.
- [3] reflects the true cost of borrowing.
- [4] is not adjusted for inflation.

1.16 Which of the following are the factors that determine the demand for asset?

- [1] Wealth, risk and liquidity.
- [2] Wealth and investment.
- [3] Government deficit, expected inflation and risk.
- [4] Liquidity, risk and investment.

1.17 A plot of the yields on bonds with different terms to maturity but same risk is called \_\_\_\_\_.

- [1] differing curve.
- [2] yield curve.
- [3] supply curve.
- [4] market equilibrium curve.

1.18 One of three theories that explain the term structure of interest rates is:

- [1] Yield curve theory.
- [2] Expected prices theory.
- [3] Liquidity preference theory.
- [4] Segmented markets theory.

1.19 Interest rate risk is the \_\_\_\_\_.

- [1] decline in returns due to changes in interest rates.
- [2] decline in returns due to a reduction in interest rates.
- [3] changes in returns due to a reduction in interest rates.
- [4] increase in returns due to a reduction in interest rates.

1.20 When the yield curve is upward sloping, the expectations theory suggests that short-term interest rates are expected to \_\_\_\_\_.

- [1] increase
- [2] decrease
- [3] remain the same
- [4] either increase or decrease

## Ten questions on your student profile

1.21 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.

1.22 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.

1.23 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.

1.24 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.

**Questions on administrative matters**

1.25 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**

1.26 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.

1.27 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

1.28 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.

1.29 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.

1.30 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.

#### 9.4 Assignment 02 for Semester 2 (Optional)

ECS3701	2nd semester
Unique number	748712
Due date	17 September 2018
Material	Learning Units 8–26

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.
- **unique assignment** number as indicated in the table above. Note that there are different unique numbers for the first and second semesters.

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 nonfinancial 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 nonbank 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 policymakers use for price stability is...

- [1] low and stable deflation.
- [2] an inflation rate of zero percent.
- [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 R400 billion, checkable deposits are R800 billion, and excess reserves total R0.8 billion, then the money supply is...

- [1] R1200 billion
- [2] R1200.8 billion
- [3] R8000 billion
- [4] R8400 billion

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 SA?

- [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 policymakers use discretionary policy, there is a higher probability that the \_\_\_\_\_ will be higher, compared to policymakers 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.