

**DEPARTMENT OF ECONOMICS
FI ASSESSMENT OPPORTUNITY**

DECLARATION BY STUDENT

Full names:

Student no:

Telephone number:

E-mail:

Date of submission:

*I declare that the work I am submitting for assessment is my own work and that I received no help from any other person to complete the assessment.
I declare that I did not use any other sources except for the prescribed study material and my own notes to complete this assessment.*

..... **(Signature)**

ID number:

Signed on (date) at(place).

FINAL FINALE	%	
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ECS3701

27 AUGUST 2018
10:00am

MONETARY ECONOMICS
FI ASSESSMENT

STUDENT NUMBER / STUDENTENOMMER									

IDENTITY NUMBER / IDENTITEITSNOMMER											

GENERAL INSTRUCTIONS

- The duration of this assessment is 2 hours, but you have 3 hours to complete and return the test, regardless of load shedding or other unexpected occurrences.
- Return the test to us by email at the following email address: lesholat@unisa.ac.za
- All tests that have not been received back by **13:00 South African time** on 27 August 2018 will not be marked. No exceptions will be made.
- Complete the declaration form sent to you to certify that the submitted test is your own work and attach it with this 6 paged script.
- You are allowed to use all your study material to complete the test but it must be your own work – you are not allowed to ask any other person to help you to complete the test.
- You are not allowed to contact your lecturer to ask questions about the test while it is in progress. If you think that there is a problem with a question in the test, you should indicate this problem in writing on the test.
- The test must be completed in your own handwriting and **not typed**.

CONTENT-BASED INSTRUCTIONS

This paper consists of 6 pages with **THREE** questions (pages 3 to 7).
All the questions are compulsory; therefore, all the questions must be answered.
Total mark is 50, calculated as a percentage (%).
All questions must be **HANDWRITTEN** in the spaces provided.

Question No	Marks	Final Mark (%)

ANSWER ALL THE QUESTIONS

Question 1 [15 marks]

1.1 Explain how asymmetric information can explain why marketable securities (debt and equity) are not the primary source of financing for businesses and how financial intermediaries and government regulation can partly overcome this problem. [10]

1.2 What is the primary benefit to a bank of holding excess reserves. [5]

Question 2 [15 marks]

An increase in short-term interest rates does not necessarily imply a stance of monetary contraction. Is this statement true, false or uncertain? Explain your answer and illustrate the effect of the increase in interest rate on price levels. [15]

Question 3 [20 marks]

3.1 What is the difference between the hierarchical and dual mandates of monetary policy? [6]
