

EASTERN UNIVERSITY, SRI LANKA  
FACULTY OF COMMERCE AND MANAGEMENT

THIRD YEAR FIRST SEMESTER EXAMINATION IN BBA (2009/10)

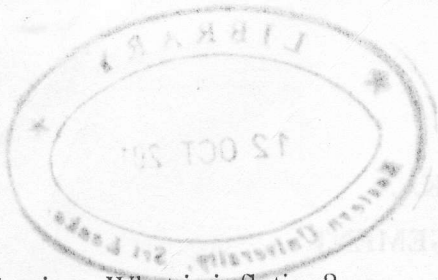
Repeat August 2011

DBE 3113 Monetary Economics

Answer all Questions

Time 03 Hours

1. i. Describe the importance of money in the modern economy. (08 Marks)
- ii. What is meant by high powered money? (07 Marks)
- iii. What do you understand from the transactions demand for money? (05 Marks)
2. i. Discuss the functions which are performed by money in an economy. (07 Marks)
- ii. Explain the speculative demand for money and how is it related to the rate of interest. (05 Marks)
- iii. "According to Tobin, rational behavior induces an individual to hold a wealth portfolio which comprised of both bonds and money" Explain. (08 Marks)
3. i. Briefly describe the process of credit creation made by commercial banks. (10 Marks)
- ii. Explain the significance of selective credit controls of a central bank. (10 Marks)
4. i. What is meant by Liquidity? (05 marks)
- ii. Explain the concept of inflationary gap with a diagram. (05Marks)
- iii. What is meant by Phillips curve? Explain with diagram (10 marks)



5. i. What is inflation? (05 Marks)
- ii. Distinguish between the Demand- Pull and the Cost- Push inflation. (07 Marks)
- iii. Explain the effects of inflation in developing countries. (08 Marks)