

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**THIRD YEAR SECOND SEMESTER EXAMINATION IN BBA 2012/2013**  
**(JULY/AUGUST 2015) (PROPER/REPEAT/REREPEAT)**  
**ECN 3013 MONETARY ECONOMICS**

**Time 3 Hours**

**Answer all Questions**

1. i. What are the main functions of money? (04 Marks)
- ii. Explain the main determinants of Money Supply of a country. (04 Marks)
- iii. What is meant by "FOREX"? (04 Marks)
- iv. Briefly explain the various types of disequilibrium of balance of payment. (08 Marks)
- (Total 20 Marks)**
2. i. What do you understand from the term "hyperinflation"? (04 Marks)
- ii. Explain the cost push inflation and its mechanism of control. (08 Marks)
- iii. Discuss the various types of unemployment of an economy. (08 Marks)
- (Total 20 Marks)**
3. i. Briefly explain the Classical approach of demand for money. (06 Marks)
- ii. "At some minimum critical rate of interest the speculative demand function for money becomes perfectly interest elastic". Explain with diagram. (06 Marks)
- iii. How does Tobin's approach to liquidity preference differ from Keynes's liquidity preference function? (08 Marks)
- (Total 20 Marks)**

4. i. Define the discount rate. (03 Marks)
- ii. Explain the process of credit creation of a Commercial bank. (06 Marks)
- iii. What are the limitations of credit creation process of a Commercial bank? (05 Marks)
- iv. "One of the core objectives of the Central bank of Sri Lanka is maintaining Economic growth and price stability of Sri Lankan economy". Explain. (06 Marks)

**(Total 20 Marks)**

5. i. Explain the primary tools of Central bank which are used to expand or contract the money supply of a country. (08 Marks)
- (ii) Discuss the Efficiency Wage Model. (06 Marks)
- (iii) Explain the importance of the monetary policy in less developed countries. (06 Marks)

**(Total 20 Marks)**