

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**THIRD YEAR FIRST SEMESTER EXAMINATION IN BBA/ ECONOMICS - 2003/2004**  
**(DECEMBER 2004)**  
**ECN 3024 MONETARY ECONOMICS**



Answer all five Questions

Time : 03 Hours

01. a. What are the main functions of money? (02 marks)
- b. Of the above functions which do you think are satisfied by credit cards. (02 marks)
- c. What do you understand from the term "precautionary demand for money"? (04 marks)
- d. "According to Tobin, rational behaviour induces an individual to hold a wealth portfolio that is comprised of both bonds and money." Discuss. (12 marks)
- (Total 20 marks)**
02. a. Explain the term "Demand pull inflation". (04 marks)
- b. The quantity theory of money is the oldest theory of Inflation. Of the two versions of quantity theory of money (Fisher's and Cambridge), which one would you consider to be superior? Why? (08 marks)
- c. How far is a weighted average price index useful in measuring inflation of an economy? (04 marks)
- d. Explain in which ways the newly introduced Sri Lanka Consumer Price Index alleviates the shortcomings of the Colombo Consumer Price Index. (04 marks)
- (Total 20 marks)**

03. a. Explain what monetary policy means? (04 marks)
- b. Identify the authority that is concerned with monetary policy and how it implements the policy (04 marks)
- c. State and discuss the recent trends in the monetary policy of Sri Lanka. (12 marks)
- (Total 20 marks)**

04. a. Name four types of deposit taking institutions operating in Sri Lanka besides Commercial Banks. (04 marks)
- b. "The banking sector in Sri Lanka, has now expanded rapidly both in terms of volume of activity and the variety of services provided to the public". Discuss. (08 marks)
- c. Explain the Development of the Non-banking Financial Institutions in Sri Lanka after Economic liberalisation. (08 marks)
- (Total 20 marks)**

05. a. "The total supply of money in the economy is determined by the joint behaviour of the Central Bank, Commercial Banks and the Public". Explain. (04 marks)
- b. "The Net Foreign Assets (NFA) of the banking system increased further in 2003, and was the major contributory factor to the growth in  $M_2$ ." What were the factors behind the growth of NFA in Sri Lanka? (04 marks)
- c. Explain the following aspects of foreign exchange market.
- i. Spot Rate
  - ii. Cross Rates
  - iii. Forward Rates
  - iv. Spread.
- (08 marks)
- (Total 20 marks)**