

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT  
THIRD YEAR FIRST SEMESTER EXAMINATION IN  
BACHELOR OF BUSINESS ADMINISTRATION (HONOURS) - 2021/2022  
(FEBRUARY/MARCH, 2024)

(PROPER/REPEAT)

**ECN 3072 – MONETARY ECONOMICS**

*Answer all questions.*

*Time: Two hours.*

*If relevant, please show graphical representation.*

*No. of Pages: 02.*

Q1.

- 1) Identify the three objectives of monetary policy. (03 Marks)
- 2) Illustrate the effects of an increase in the quantity of money on the speculative demand for money, using the diagram. (08 Marks)
- 3) Explain the four factors that determine the supply of money. (08 Marks)
- 4) Why only a fraction of deposits is kept as cash reserve? Briefly, explain. (06 Marks)

(Total 25 Marks)

Q2.

- 1) Define 'Standing Deposit Facility Rate' (SDFR). (04 Marks)
- 2) What is meant by "Banker's Bank"? (04 Marks)
- 3) Assume that the Central Bank purchases Rs. 100 million worth of the government securities on the open market. The required reserve ratio is 20%. What is the amount a bank can lend from this Central Bank's purchase of bonds? (03 Marks)
- 4) Differentiate between Fixed Exchange Rate System and Flexible Exchange Rate System. (06 Marks)
- 5) Using graph, briefly illustrate the mechanism through which the exchange rate can be determined. (08 Marks)

(Total 25 Marks)

Q3.

- 1)
  - a) Why is credit creation the most important purpose of commercial banks? (04 Marks)
  - b) Will the credit creation capacity of commercial banks rise or fall if the central bank sells securities in the market? Briefly outline. (04 Marks)

- 2) Briefly explain the working of any two quantitative methods of credit control in Sri Lanka. (04 Marks)
- 3) You are given the following information about a portfolio consisting of stocks X, Y, and Z:

Stock	Investment	Expected Return
X	10,000	8%
Y	15,000	12%
Z	25,000	16%

Calculate the expected return of the portfolio.

(03 Marks)

- 4)
- What is the coupon payment of a bond with a face value of Rs.1000 and a 3% coupon (payable annually)? (02 Marks)
  - 'What term' is used to mention indicate a bond which does not pay coupon payment? (02 Mark)
- 5) Briefly discuss the relationship between rate of interest and inflation. (06 Marks)

(Total 25 Marks)

Q4. Write Notes on the following.

- 'Transaction Demand for Money'.
- 'Liquidity Trap'.
- 'Role of the Central Bank'.
- 'Types of the Money Supply'.
- 'Demand Pull Inflation'.

(05×05 = Total 25 Mark)