OLABISI ONABANJO UNIVERSITY
CENTER FOR SANDWICH PROGRAMS
FACULTY OF SOCIAL AND MANAGEMENT SCIENCES
DEPARTMENT OF ECONOMICS
2009/2010 SESSION RAIN SEMESTER EXAMINATION

COURSE CODE/TITLE: ECO 314 – INTRODUCTION TO MONETARY THEORY
INSTRUCTION: Answer all questions in Sections A and B;
Answer any one in Section C.
TIME ALLOWED: 1HR 45 MINS

SECTION A – State if True or False with a BRIEF explanation

1. Those who save a lot are usually pleased when there is inflation in the economy. False
2. Any asset placed next to money is a 'near money' True
3. Fisher's theory of demand for money comprises of transaction demand and precautionary demand. False
4. The velocity of money refers to the rate at which investments appreciate or depreciate False
5. The willingness or unwillingness to hold cash is described as liquidity preference False
6. The precautionary motive of demand for money is inversely related to income. False
7. The IS curve depicts equilibrium in the real sector while the LM curve depicts equilibrium in the monetary sector. True
8. The neutrality of money refers to how money influences both monetary and real sector variables. False
9. The natural interest rate is usually lower than the market interest rate. False
10. The speculative demand for money is directly related to interest rate. False

(20 Marks)

SECTION B – FILL IN THE GAP. WRITE THE ANSWER ONLY.

Irving 1. Fisher...... is the proponent of the transaction demand for money theory
2. The Cambridge school's demand for money theory is also known as ... Cash balance neo classical theory
Transactionary Precautionary speculative 3. The 3 components of Keyne's theory of demand for money are ....
4. The equation of exchange is stated as .....MV = PQ.........
5. There are ....two......... views of the concept of money supply in an economy and these are .....traditional & modern
6. The equilibrium interest rate where demand for loanable funds equates supply of loanable funds is referred to as ...market interest rate/general [illegible] interest rate
Demand-Pull 7. .... is caused by excessive demand which is not matched by a corresponding increase in output
8. An increase in the price of production which is transmitted into a persistent rise in the prices of goods and services is known as ......Cost push inflation

9. The transactionary and precautionary motives of demand for money are directly related to income.

10. The function of money which is most relevant to debtors and creditors is that it is..It is act as store of account Settlement or Deferred payment

speculative

Defe

(20Marks)

SECTION C – ANSWER ANY ONE QUESTION.

Question 1

a. Mention the main theories of demand for money. – Neo-classical, Classical, Keynesian theory, Monetary, Broad

b. Compare and contrast any two of the theories.

c. Specify the narrow and broad definitions of money.

$m^* = f(y, r)$

$m = f(y)$

(30 Marks)

Question 2

a. Why is paper money worth more than just the paper it is printed on? – proportional

b. Illustrate, graphically, the IS and LM curves.

c. List the theories of money supply.

$m^d = kPy$

(30 Marks)

Neo-classical theory of d for money

$md = (y/p, re, pc, u)$

$md = ms$