OLABISI ONABANJO UNIVERSITY
FACULTY OF SOCIAL AND MANAGEMENT SCIENCES
DEPARTMENT OF ECONOMICS
2010/2011 SESSION RAIN SEMESTER EXAMINATION

COURSE CODE/TITLE: ECO 314 – INTRODUCTION TO MONETARY THEORY
INSTRUCTION: Answer all questions in Section 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 to support your answer

1. The speculative motive of demand for money is inversely related to interest.
2. The natural interest rate is otherwise referred to as the market interest rate
3. Inflation is beneficial to nobody.
4. The classical theory of demand for money comprises of transaction demand and precautionary demand.
5. The velocity of money refers to the rate at which investments are rolled over.
6. Near money includes real estate and stocks.
7. The IS curve depicts equilibrium in the monetary sector while the LM curve depicts equilibrium in the real sector.
8. The term "money veil" refers to how money covers a lot of area in the economy.
9. The Monetary transmission mechanism refers to the process by which monetary authorities determine interest rate in the economy.
10. The willingness or unwillingness to hold cash is described as liquidity preference.

(20 Marks)

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

1. According to ...., as stated in the .... theory, the premium offered to induce people to hold wealth in other forms other than hoarding money is ....
2. Hicks is the proponent of the .... theory of ....
3. The position that people hold money as a medium of exchange or means of payment is expressed in the.................... theory of demand for money.
4. The Cambridge School's demand for money theory is also known as the .... theory
5. The major difference between .... theory of demand for money and that of the .... theory is the speculative motive for demand of money
6. The equation of exchange is specified as .... where the constant variables in the equation are ....
7. There are .... views of the concept of money supply in an economy and these are ....
8. The equilibrium interest rate where demand for ....equates supply of ....is referred to as ....

9. ....inflation is caused by excessive demand which is not matched by a corresponding ....

10. The function of money which is most affected by inflation is that it is ....

(20Marks)

SECTION C – ANSWER ANY ONE QUESTION.

Question 1

a. Give a brief exposition of the liquidity preference theory as it relates to

i. Demand for money

ii. Interest rate

b. Briefly explain Inside and Outside money

c. Specify the narrow and broad definitions of money.

d. List the major theories of demand for money

(30 Marks)

Question 2

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

b. Briefly explain the concept of liquidity trap. Include relevant graph(s).

c. Why is paper money worth more than just the paper it is printed on?

d. List the theories of money supply.

(30 Marks)