ELIZADE UNIVERSITY, ILARA-MOKIN. ONDO STATE

ELIZADE UNIVERSITY

FACULTY: SOCIAL & MANAGEMENT SCIENCES

DEPARTMENT: ACCOUNTING & FINANCE.

SECOND SEMESTER EXAMINATIONS

2016/2017 ACADEMIC SESSION

COURSE CODE: BFN 302

COURSE TITLE: MONETARY THEORY & POLICY

DURATION: 2 HOURS.

HOD's SIGNATURE

INSTRUCTION: Attempt section A and any other two (2) questions in section B.

SECTION A

1. Price stability is desirable because (A) inflation creates uncertainty, making it difficult to plan for the future. (B) Everyone is better off when prices are stable. (C) Price stability increases the profitability of the Central Bank. (D) It guarantees full employment.

2. A central feature of monetary policy strategies in all countries is the use of a nominal anchor, which is a nominal variable that monetary policymakers use as an (A) operating target, such as the federal funds interest rate. (B) Intermediate target, such as the federal funds interest rate. (C) Intermediate target to achieve an ultimate goal such as price stability. (D) Operating target to achieve an ultimate goal such as exchange rate stability.

3. The time inconsistency problem with monetary policy tells us that, if policymakers use discretionary policy, there is a higher probability that the ________ will be higher, compared to policy makers following a behaviour rule. (A) Inflation rate (B) unemployment rate (C) interest rate (D) foreign exchange rate

4. The three players in the money supply process include (A) banks, depositors, and borrowers. (B) Banks, depositors, and the central bank. (C) Banks, Insurance Company, and PFAs. (D) Banks, borrowers and PFAs

5. Both ________ and ________ are Central Bank of Nigeria's assets. (A) Currency in circulation; Reserves (B) currency in circulation; Government securities (C) government securities; Reserves (D) government securities; Discount loans

6. Reserves are equal to the sum of (A) required reserves and excess reserves. (B) Required reserves and vault cash reserves. (C) Excess reserves and vault cash reserves. (D) Vault cash reserves and total reserves.

7. The percentage of deposits that banks must hold in reserve is the (A) excess reserve ratio. (B) Required reserve ratio. (C) Total reserve ratio. (D) Currency ratio.

8. Purchases and sales of government securities by the Central Bank are called (A) discount loans. (B) Federal fund transfers. (C) Open market operations. (D) Swap transactions.

9. When the Central Bank purchases a government bond from a bank, reserves in the banking system ________ and the monetary base ________, everything else held constant. (A) Increase; Increases (B) Increase; Decreases (C) Decrease; Increases (D) Decrease; Decreases

10. There are two ways in which the Central Bank can provide additional reserves to the banking system: it can ________ government bonds or it can ________ discount loans to commercial banks. (A) Sell; Extend (B) sell; Call in (C) purchase; Extend (D) purchase; Call in

11. When the Central Bank supplies the banking system with an extra naira of reserves, deposits increase by more than one naira a process called (A) extra deposit creation. (B) Multiple deposit creation. (C) Expansionary deposit creation. (D) Stimulative deposit creation.

12. The Central Bank can exert more precise control over ________ than it can over ________. (A) High powered money; Reserves (B) High powered money; The monetary base (C) the monetary base; High powered money (D) reserves; High powered money

13. The variable that reflects the effect on the money supply of changes in factors other than the monetary base is the (A) currency checkable deposits ratio. (B) Required reserve ratio. (C) Money multiplier. (D) Non -borrowed base.

14. The CBN uses three policy tools to manipulate the money supply: ________, which affect reserves and the monetary base; Changes in ________, which affect the monetary base; and changes in ________, which affect the money multiplier. (A) Open market operations; Borrowed reserves; Margin requirements (B) open market operations; Borrowed reserves; Reserve requirements (C) borrowed reserves; Open market operations; Margin requirements (D) borrowed reserves; Open market operations; Reserve requirements

15. The opportunity cost of holding excess reserves is the federal funds rate ________. (A) Minus the discount rate (B) plus the discount rate (C) plus the interest rate paid on excess reserves (D) minus the interest rate paid on excess reserves **(30 Marks)**

SECTION B

1a. Briefly discuss monetary policy. (5 Marks)

b. Discuss the assumptions of J.M Keynes on monetary theory (10 Marks)

2a. Identify the five (5) trade-off faced by the Central Bank of Nigeria (CBN) (5 Marks)

2b. Distinguish between Irving Fisher theory of demand for money and Minton Friedman theory of demand for money. (10 Marks)

3a. Identify five (5) indicators of economic growth in Nigeria (5 Marks)

3b. Discuss four (4) global effects of monetary Policy (10 Marks)