



*(Knowledge for Development)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2020/2021 ACADEMIC YEAR**

**THIRD/FOURTH YEAR SECOND SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR BACHELOR OF EDUCATION ARTS/BACHELOR OF BUSINESS  
MANAGEMENT**

**COURSE CODE: ECO 304/BBF421**

**COURSE TITLE: MONEY AND BANKING**

**DATE: 11<sup>TH</sup> FEBRUARY, 2021      TIME: 2.00 - 4.00PM**

---

**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

**KIBU observes ZERO tolerance to examination cheating**

This Paper Consists of 3 Printed Pages. Please Turn Over.

## SECTION A

### QUESTION ONE

- a) How does the role of money in capitalist economy differ from its role in socialist economy (7mks)
- b) Discuss the motives for acquiring cash balances (5mks)
- c) Critically examine Fisher's equation of Exchange (5mks)
- d) State and explain ways in which the central bank influence the supply of money (8mks)
- a) Compare and contrast the cash transaction and the cash balance approach (5mks)

## SECTION B

### QUESTION TWO

- a) Explain the important functions of modern commercial banks (10mks)
- b) Describe the mechanism of multiple expansion of credit. Can such credit be created by an individual bank acting independently (10mks)

### QUESTION THREE

- a) "The obvious objective of monetary policy should be to attain equilibrium between saving and investment at the point of full employment". Explain (10mks)
- b) "Money is the pivot around which economic science clusters". Discuss (10mks)

### QUESTION FOUR

- a) Differentiate between money demand and money supply(5mks)
- b) 'Money which is a source of so many blessings to mankind becomes also a source of peril and confusion'. Discuss (15mks)

### QUESTION FIVE

- a) 'Money itself creates nothing: it is a lubricant of real economic process of production and distribution of goods and services and a means of attaining social justice'. Discuss (10mks)
- b) Describe various factors that determine the velocity of circulation in a country (10mks)