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**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2020/2021 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCF307/313**

**COURSE TITLE: MONETARY THEORY AND PRACTICE**

**DATE: 10<sup>TH</sup> FEBRUARY, 2021      TIME: 11.00AM – 1.00PM**

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**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

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### QUESTION ONE

- a) Identify four limitations of barter trade that led to the development of money. (8 MKS)
- b) Discuss any four instruments of monetary policy used to control and regulate money supply by the central Bank. (8 MKS)
- c) Describe the monetarists view of the quantity theory of money (6 mks)
- d) Explain four reasons why the government opts for deficit financing to correct the budget deficit. (8 MKS)

### QUESTION TWO

- a) Explain the factor that affect the supply and demand of foreign currency. (10 MKS)
- b) Highlight the major criticisms leveled against the rational expectations theory. (10 MKS)

### QUESTION THREE

- a) With clear examples. Explain five effects of the transmission mechanisms of monetary policy on the economy and general price level (10 MKS)
- b) Discuss the success conditions of open market operations on the economies of the developing countries. (10 MKS)

### QUESTION FOUR

- a) Explain the role played by the monetary authorities in the economies of Africa. (10 MKS)
- b) What is the current development in monetary policy that is shaping up the economies of the developing countries. (10 MKS)

### QUESTION FIVE

- a) Briefly, discuss the limitations displayed by the policy of open market operation in the Kenyan Economy. (10 MKS)
- b) Explain five reasons that are associated with the collapse of the cash reserve ratio in regulations of African Economies. (10 MKS)