



(Knowledge for Development)

**KIBABII UNIVERSITY UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR THIRD YEAR FIRST
SEMESTER MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE
COURSE CODE: BCF 313
COURSE TITLE: MONETARY THEORY AND PRACTICE**

DATE: 15/07/2021 TIME: 2.00 P.M – 4.00 P.M

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 HOURS

KIBUCO observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over

SECTION A

QUESTION ONE

- a) Identify four functions of money in the modern economy (4mks)
- b) Differentiate between the following terms: -
- i. Debts market and Equity market (2mks)
 - ii. Money market and Capital market (2mks)
- c) State three assumptions of the Quantity theory of Money (6mks)
- d) Highlight three factors that determine the money supply (6mks)
- e) Identify four main advantages of using open market authorities in influencing short term interest rates (4mks)
- f) Briefly explain the concept of “Adaptive expectations” and the associated problems (6mks)

SECTION B

QUESTION TWO

- a) While classical economists tended to emphasize the use of money in making transactions. Keynes identified three motives for holding money. State and explain the three motives he identified. (10mks)
- b) Discuss the criticisms levelled against the Quantity theory of money (10mks)

QUESTION THREE

- a) Explain any five monetary policy instruments that can be used by central bank to achieve its objectives (10mks)
- b) Explain three ways in which policy makers can do when faced with a recession in the economy on aggregate demand (10mks)

QUESTION FOUR

- a) Discuss two ways the policy maker can do when faced with stagflation in the economy (10mks)
- b) Using IS -LM Model, explain the effects of contractionary monetary policy which involves the central bank decreasing money supply on interest rate and income or output (10mks)

QUESTION FIVE

- a) Explain five main objectives of monetary policy undertaken by central bank (10mks)
- b) Discuss ways policy makers should take when faced with recessionary situation in the economy (10mks)