



(Knowledge for Development)

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

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 313

COURSE TITLE: MONETARY THEORY AND PRACTICE

DATE: 12/1/2022

TIME: 11.00 a.m -1.00 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

Answer question one in Section A and any other two questions in Section B

SECTION A

QUESTION ONE

- a) State four limitations of commodity money in the economy (4mks)
- b) Outline three methods of classifying financial markets based on the type of instruments and services (6mks)
- c) Distinguish between the following terms as used in monetary policy issues: -
 - i. Sight and Time deposits (2mks)
 - ii. Primary and Secondary markets (2mks)
 - iii. Money and capital markets (2mks)
- d) Highlight three assumptions of the Quantity theory of money as postulated by the classical economists (6mks)
- e) People hold money to meet their daily expenditures. Outline four determinants for this type of motive 4mks)
- f) Monetary policy works through the intermediary of monetary policy instruments. Outline four of the monetary policy instruments (4mks)

SECTION B

QUESTION TWO

- a) Discuss three classifications of the financial market based on the type of instruments and services used (10mks)
- b) Explain the limitations of the Quantity Theory of Money (10mks)

QUESTION THREE

- a) There are two types of commercial paper, direct commercial paper and dealer commercial paper. Highlight five advantages of commercial paper (10mks)
- b) Briefly explain any five major monetary policy objectives aimed at achieving stability in the economy (10mks)

QUESTION FOUR

- a) Explain five physical properties of a commodity that can be used as money (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/output (10mks)

QUESTION FIVE

- a) Differentiate between monetary and fiscal policies. Explain how fiscal policy influence economic growth (10mks)
- b) What are treasury bills? Explain the importance of suing T-bills as instruments of funding Businesses (10mks)