



*(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: 03/08/2021      TIME: 2.00 P.M - 4.00 P.M**

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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**

**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

**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 1S-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 using T-bills as instruments of funding Businesses (10mks)