



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER
SPECIAL/SUPPLEMENTARY EXAMINATION
FOR BACHELOR OF EDUCATION
COURSE CODE: ECO 304
COURSE TITLE: MONEY AND BANKING

DATE: 23TH NOVEMBER, 2022

TIME: 11.00AM – 1.00PM

INSTRUCTIONS TO CANDIDATES

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

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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



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SECTION A**QUESTION ONE**

- i) 'The transactions and precautionary demand for money is income determined but the speculative demand for money is income determined' explain (10mks)
- ii) Explain clearly the role of commercial banking in developing and underdeveloped economy (10mks)
- iii) Is the central bank really necessary for the banking system of the country?. Explain (5mks)
- iv) Discuss the simple quantity theory as used in the classical view of money (5mks)

SECTION B**QUESTION TWO**

- a) What are the principal functions of central bank? How does the central bank protect other banks from failure? (15mks)
- b) Critically examine Fisher's equation of Exchange (5mks)

QUESTION THREE

- a) Explain factors that influence credit creation by banks (5mks)
- b) Describe the mechanism of multiple expansion of credit. Can such credit be created by an individual bank acting independently? Explain (15mks)

QUESTION FOUR

- a) Explain the main and secondary functions of money. Is it possible for a thing to serve as medium of exchange without being used as a measure of value? Discuss (15mks)
- b) Discuss the motives for acquiring cash balances (5mks)

QUESTION FIVE

- c) '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 (12mks)
- d) How does the role of money in capitalist economy differ from its role in socialist economy (8mks)

