



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEARS FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 313

COURSE TITLE: MONETARY THEORY AND PRACTICE.

DATE: 21ST NOVEMBER, 2022

TIME: 2.00PM - 4.00PM

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

SECTION A

QUESTION ONE (Compulsory)

- a) Write brief notes about the relationship between inflation and economic growth (4 marks)
- b) Discuss FIVE causes of the huge budget deficit being experienced in most sub-Saharan African countries including Kenya? (10 marks).
- c) Give four limitations of the monetarists' theory of money (4 marks)
- d) For a material to be used as a monetary standard it must possess the number of certain characteristics. Explain this statement. (6 marks)
- e) State and explain the role of commercial banks in an economy. (6 marks)

QUESTION TWO

- a) While classical economists tended to emphasize the use of money in making transactions, Keynes identified three motives for holding money. Enumerate the three motives he identified. (9 marks)
- b) Discuss any four instruments used to control and regulate money supply by the Central Bank (8 marks)
- c) Explain the important functions of financial markets (3 marks)

QUESTION THREE

- a) Discuss FIVE instrument used Central Bank to control credit creation. (10 marks)
- b) Discuss the economic impact of increased money supply in an economy (10 marks)

QUESTION FOUR

- a) *Central Banks are nerve centers of economic growth and development. Discuss SIX role of the Central Banks in any economy and how they may influence the performance of a country's economy. (12 marks).*
- b) *Why is currency devaluation ineffective in developing (4marks?)*
- c) *By use of examples discuss what is liquidity trap (4 marks)*

QUESTION FIVE

- a) Briefly explain the likely effects of an expansionary monetary policy in an economy. (6 marks)
- b) With the aid of diagram, explain the effects of increase in tax on the level of output and interest rate in the economy.(8 marks)
- c) Discuss THREE objectives of Central Bank when undertaking monetary policy(6 marks)