

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATION
RESIT/SUPPLEMENTARY / SPECIAL EXAMINATIONS EXAMINATION FOR THE
AWARD OF BACHELOR OF COMMERCE AND BACHELOR OF ECONOMICS**

BCOM 333/ECON 341/ECON 345: MONEY AND BANKING

STREAMS: BCOM, ECON

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 11/08/2021

2.30 P.M - 4.30 P.M.

INSTRUCTIONS

Answer question ONE and any other two

1. Explain the definition of money as proposed by:- (6 marks)
- Abstract definition
 - Legal definition
 - Prof. Milton Friedman

2. Suppose you are given the following information about an economy

$C=400+0.8 Y^d$ - Consumption function

$T=60+0.2 Y$ - Tax function

$I=200-100 i$ - Investment function

$G= \hat{i}$ - Government expenditure

$M_d=0.2004 Y +300-20 i$ - Money demand

$M_s=470$ - Money supply

- Derive the IS and LM schedules. (4 marks)
- Calculate equilibrium consumption, tax, investment and money demand

(4 marks)

- c) Suppose the government increases its expenditure by 200, what is the effect on equilibrium income and interest rate? (3 marks)
3. Discuss the main reasons why the Central bank is given monopoly power to print and issue currency. (5 marks)
- c) Discuss the factors that influence the implementation of monetary policy in developing economies. (8 marks)

QUESTION TWO

- a) Explain in detail the stages through which money has evolved. (6 marks)
- b) Define the following:- (4 marks)
- i. Token money
 - ii. Representative full bodied money
 - iii. Fiat money
- c) The Central Bank is largely referred by economists as the bank at the apex with monetary authority. Clearly explain the major functions of the Central Bank (10 marks)

QUESTION THREE

- a) What is the importance of a well-developed money market in an economy like ours in Kenya. (10 marks)
- b) The development of money was needed to overcome the shortcomings and frustrations of the barter system. Discuss these shortcomings (10 marks)

QUESTION FOUR

- a) Explain the main tenets of the following:
- i. Fisher's Quantity Theory of Money (6 marks)
 - ii. Keynesian Theory of Money. (6 marks)
- b) Explain the functions of money (8 marks)
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