CHUKA UNIVERSITY

UNIVERSITY EXAMINATION
RESIT/SUPPLEMENTARY / SPECIAL EXAMINATIONS
EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN ECONOMICS

MSEC 853: MONETARY THEORY AND PRACTICE

STREAMS: MSEC **TIME: 3 HOURS**

DAY/DATE: THURSDAY 12/08/2021 **8.30 A.M - 11.30 A.M.**

INSTRUCTIONS:

- **Do not write anything on this paper**

QUESTION ONE

1. What is money? What would you include as the components of money supply? (10 marks)
2. Discuss the main limitations of applying credit control instruments in a developing economy. (10 marks)
3. Explain the major consequential economic impact of high and rising rate of interest in an economy. (10 marks)

QUESTION TWO

a) Distinguish the following terms in monetary theory

i. Discount window and discount rate (2 marks)

ii. Monetary stock and real stock (2 marks)

iii. Natural rate hypothesis and policy effectiveness (4 marks)

iv. Liquidity and velocity of money by the Cambridge economists (2 marks)

b) Discuss the major differences of the New Keynesian model and the traditional Keynesian and New Classical model. (10 marks)

QUESTION THREE

i. Compare and contrast the effects of an expected increase or decrease in the money supply on prices and output in the traditional Keynesian, New Classical and New Keynesian models. (10 marks)

ii. Can budget deficits lead to inflation? Explain why might the governments choose to monetize the debt? (10 marks)

QUESTION FOUR

a. According to Baumol and Tobin, the transactions demand for money depends upon the interest rates as well as nominal income. Explain why the transactions demand for money depends upon the interest rate. Why is this important? (10 marks)

b. Explain the Monetarist and Keynesian views of aggregate demand. Explain why Monetarists do not believe that shifts in the IS curve affect aggregate demand. (10 marks)

QUESTION FIVE

a. Define the Monetarist revolution. Discuss the major features of Monetarist revolution. (10 marks)

b. Giving relevant examples, discuss the major strategies employed by the developing nations to cushion its citizens from the financial crisis as a result of financial deepening caused by the Covid-19 pandemic. (10 marks)

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