

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF ECONOMICS & SOCIOLOGY, ECONOMICS &
MATHEMATICS, ECONOMICS & HISTORY, AGRIBUSINESS
MANAGEMENT & AGRICULTURAL EDUCATION

ECON 341: ECONOMICS OF MONEY AND BANKING

STREAMS: BSC (ECON & SOCI, ECON & MATHS, ECON & HIST, AGBM & AGECE)
TIME: 2 HOURS

DAY/DATE: WEDNESDAY 06/12/2017

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

1. (a) Distinguish the difference between the following economic terms as used in money and banking.
- (i) Full bodied money and near money [2 marks]
 - (ii) Legal tender and fiat money [2 marks]
 - (iii) Deficit financing and public debt [2 marks]
 - (iv) Contractionary monetary policy and expansionary fiscal policy. [2 marks]
 - (v) Inside and outside money [2 marks]
- (b) The commodity and money markets in an economy are given below
- $$C = 400 + 0.75Y^d$$
- $$I = 200 - 100r$$
- $$T = 70 + 0.2 Y$$
- $$G = 100$$
- $$X = 10$$
- $$M = 150 + 0.06 Y$$
- $$M_s = 4000$$
- $$M_d = 0.2Y - 10r$$

ECON 341

Required:

- (i) Distinguish between IS and LM curves. [4 marks]
- (ii) Calculate
- (a) Equilibrium income [2 marks]
- (b) Consumption equilibrium [2 marks]
- (c) Investment and tax equilibrium. [2marks]
- (c) Monetary policy objectives seem to mutually contradict price stability and economic growth. Discuss the statement. [10 marks]
- (d) Discuss the Cambridge cash balance approach to the quantity theory of money. How far is it superior to the cash transactions approach by Fisher. [10 marks]
2. (i) Crowding out effect of fiscal policy impedes the expansion of economic macro variables in the entire economy. Explain the crowding effect fiscal policy. [10 marks]
- (ii) The balance of payment of a country is a systematic record of all its transaction in the economy with the outside world in a given year. Balance of payment always balances. Explain. [10 marks]
3. (i) A disequilibrium in the balance of payment (BOP) may either be a deficit or a surplus. Discuss the causes of disequilibrium in the balance of payment. [10 marks]
- (ii) Differentiate between the following terms as used in the macroeconomic environment
- (a) Devaluation of currency and depreciation of currency. [2 marks]
- (b) Recognition lag and policy lag [2 marks]
- (iii) Banking is an important aspect of credit creation and provides an arena for creation of jobs. Discuss in depth the origin of banking. [6 marks]
4. (i) Discuss the drawbacks of Irvin Fisher's theory of money. [6 marks]
- (ii) Explain the reasons why many economies prefer deficit financing to offset the imbalances brought about in budget deficit situations. [4 marks]
- (iii) Explain the roles of capital markets as an important monetary policy employed by many economies in striving to achieve the general balance and objectives in the macroeconomic environment [10 marks]