

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**THIRD YEAR EXAMINATION FOR THE AWARD OF
DEGREE OF BACHELOR OF COMMERCE**

BCOM 333: MONEY AND BANKING

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: TUESDAY 05/12/2017

2.30 P.M. – 4.30 P.M.

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY
OTHER TWO QUESTIONS**

QUESTION ONE

- (a) Discuss the following theories of money
- (i) Fisher's quantity theory and money [5 marks]
 - (ii) Keynesian theory of money and prices. [5 marks]
 - (iii) Friedman's theory of money [5 marks]

- (b) Suppose you are given the following information
about an economy

$$C = 80 + 0.8Y^d - \text{consumption}$$

$$I = 60 + 0.2Y - \text{Tax}$$

$I = 200 - 10i$ – investment

$G = 200$ – Government expenditure

$X = 10$ – export

$M = 150 + 0.06Y$ – imports

$M^D = 0.4 Y + 300 - 20i$ – money demand

$M^S = 4000$ – Money supply

Required:

- (i) Derive the IS and LM schedules. [4 marks]
- (ii) Calculate equilibrium consumption, investment, imports, and money demand. [8 marks]
- (iii) Suppose the government increases its expenditure by 400, what is the effect on equilibrium income? [3 marks]

QUESTION TWO

- (i) Discuss the weapons of monetary control while classifying them into quantitative and qualitative measures. [12 marks]

- (ii) In discharging their duties, the central banks of developing economies are faced with some major issues of concern. Discuss these issues. [8 marks]

QUESTION THREE

- (i) Discuss clearly two major factors that determine the scope of monetary policy. [10 marks]
- (ii) Discuss the significance of money in the modern economy. [10 marks]

QUESTION FOUR

- (a) Distinguish between the following
- (i) Neutrality and non-neutrality of money [2 marks]
 - (ii) Demand and time deposits [2 marks]
 - (iii) Inside and outside money [2 marks]
 - (iv) Statutory and excess reserves [2 marks]
 - (v) Fiat money and representative money [2 marks]
 - (vi) High powered money and credit money [2 marks]

- (b) Explain the conditions that determine the effectiveness of open market operation.[8 marks]
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