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

   $C = 80 + 0.8Y^d$ – consumption

   $I = 60 + 0.2Y$ – Tax

   $I = 200 – 10i$ – investment

   $G = 200$ – Government expenditure

   $X = 10$ – export

   $M = 150 + 0.06Y$ – imports

   $M^D = 0.4Y + 300 - 20i$ – 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]