

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR ARTS IN
SOCIOLOGY AND HISTORY , BACHELOR OF AGRICULTURAL EDUCATION AND
EXTENSION AND BACHELOR OF SCIENCE IN AGRICULTURE**

ECON 341: ECONOMICS OF MONEY AND BANKING

STREAMS: BA (SOCIOLOGY & HISTORY, AGRICULTURE, AGRICULTURAL EDUCATION AND EXTENSION)

TIME: 2 HOURS

DAY/DATE: TUESDAY 24/07/2018

11.30 A.M – 1.30 P.M

INSTRUCTION:

- **Answer question one and any other two questions**

1. (a) Define the difference between the following economic terms:

(I) Balance of payment and foreign exchange. [2marks]

(ii) Fiscal policy and monetary policy [2marks]

(iii) A budget deficit and deficit financing [2marks]

(iv) A legal money and a token money [2marks]

(v) Precautionary and speculation demand for money. [2marks]

(b) Money plays a pivotal role in the economy. Discuss the role of money in the general stability of the economy. [10marks]

(c) When money supply increases Ceteris paribus, the economy experience monetary 'heat' . Explain this statement by deriving the determinants of money supply.

[10marks]

2. (i) Discuss the formal relation between money supply and high powered money.

[10marks]

(ii) Given the following money and commodity market values.

$$C = 240 + 0.2 Y$$

$$I = 10 - 0.4i$$

$$MD = 120 + 0.1Y - 0.3r$$

$$MS = 140$$

Required :

- (a) Sketch IS – LM curves [2marks]
(b) Derive IS – LM model [2marks]
(c) Estimate the values of equilibrium national income and interest. [6marks]
3. (a) Instruments of monetary policy refers to economic variables that the central bank can change at its own discretion with a view to controlling money supply and demand. Explain the quantitative measures used by central bank in relation to that statement.
[10marks]
- (b) Credit creation is the process by which banks are able to lend out amounts of greater magnitudes than the amount of money they originally received from deposits. From this statement explain the credit creation process by commercial banks. [10marks]
4. (i) Non – banking financial institutions operate on the basis of statistical law of large number. According to this law not all creditors will withdraw their funds which will be used for expansion of the economy. Discuss the roles of non banking financial institutions. [10 marks]
- (ii) Central bank is the central monetary institution which is charged with performing some duties. Discuss the functions of the central bank in different economies. [10marks]
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