CHUKA   **UNIVERSITY**

THIRD YEAR EXAMINATION FOR THE AWARD OF BACHELOR DEGREE IN ECONOMICS AND STATISTICS

ECON 345: ECONOMICS OF MONEY AND BANKING

STREAMS: Y4 S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 17/11/2020   **8.30 A.M – 10.30 P.M.**

INSTRUCTIONS:
- Answer Question One And Any Other Two Questions

QUESTION ONE (30 MARKS)
  a. Discuss the evolution, origin and growth of the banking system   (10 Marks)

  b. Discuss the tools of monetary policy   (12 Marks)

  c. Highlight the limitations of open market operations and the bank rate as methods of credit control   (8 Marks)

QUESTION TWO (20 MARKS)
  a. Discuss the following theories of money demand

     i.   The Cambridge cash balance equations theory

     ii.   Post Keynesian theories of money demand

     iii.   Friedman's theory

  b. Discuss the determinants of money supply in an economy   (10 Marks)

QUESTION THREE (20MARKS)

    a. Discuss the relationship between monetary policy and;   (12 Marks)

        i.   Savings

        ii.   Investment

        iii.   Price stability

        iv.   Economic growth

    b. Using relevant example, outline the process of credit creation by commercial banks

                                  (8 Marks)

QUESTION FOUR (20 MARKS)

    a. You are given the following information about an economy;

       $C = 400 + 0.8Yd$ (consumption function)

       $T = 60 + 0.2Y$ (tax function)

       $I = 200 - 100r$ (investment function)

       $Md = 0.24Y + 300 - 20r$ (money demand)

       $Ms. = 470$ (money supply)

       Required;

        i.   Derive the IS and LM schedules   (4 Marks)

        ii.   Calculate equilibrium consumption, tax, investments and money demand

                                  (6 Marks)

    b. Compare and contrast the use of commodities and money as mediums of exchange by outlining the advantages and disadvantages of each   (10 Marks)

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