CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF ECONOMICS

ECON 345: ECONOMICS OF MONEY AND BANKING

STREAMS: (ODEL) **TIME: 2 HOURS**

DAY/DATE: THURSDAY 21/4/2023 **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS: Answer Question ONE and any other TWO Questions.

QUESTION ONE

a) Using appropriate examples and diagram where necessary, explain the following economic terms. (10 marks)

   i) Money demand and money supply
   ii) Contractionary and expansionary monetary
   iii) Velocity of money and liquidity trap
   iv) Credit creation and bank reserves
   v) Commodity money and fiat money

b) Explain using relevant examples Friedman's theory of money demand. (6 marks)

c) Using Kenya as an example, discuss the limitations of monetary policy in developing countries. (6 marks)

d) Explain the functions of money and discuss how inflation affects the functions of money. (8 marks)

QUESTION TWO

a) Define the term money supply and discuss four main functions of money in Kenyan Economy. (10 marks)

b) Explain why commercial banks in developing countries perform poorly compared to those in developed countries. (10 marks)

QUESTION THREE

a) Clearly discuss the determinants of money supply highlighting the weaknesses of each. (10 marks)

b) Explain Keynes theory of money demand and clearly highlight the weaknesses of the liquidity preference theory. (10 marks)

QUESTION FOUR

a) Discuss five central banks instruments that is used to control money supply. (10 marks)

b) Monetary policy is used to achieve some economic objectives. However, sometimes the attainment of one objective hinders the achievement of the other. In light of the above statement, explain using relevant examples, the conflicting objectives of monetary policy. (5 marks)

c) Define the term Velocity of Money, and outline FOUR factors that influence the velocity of money. (5 marks)-

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