



# **MACHAKOS UNIVERSITY**

**University Examinations for 2020/2021 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ECONOMICS**

**THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR**

**BACHELOR OF ECONOMICS AND STATISTICS**

**BACHELOR OF ECONOMICS AND FINANCE**

**BACHELOR OF ECONOMICS**

**BACHELOR OF COMMERCE**

**BACHELOR OF EDUCATION**

**BACHELOR OF ARTS**

**EAE 310: ECONOMICS OF MONEY BANKING**

**DATE: 26/3/2021**

**TIME: 8.30-10.30 AM**

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## **INSTRUCTIONS:**

- (i) Answer question one (Compulsory) and any other two questions**
- (ii) Do not write on the question paper**
- (iii) Show your workings clearly**

## **QUESTION ONE (30 MARKS)**

- a) Distinguish between narrow money and broad money. (4 marks)
- b) Explain the five instruments that central bank use to control money supply in your country. (10 marks)
- c) Outline any four limitations of the process of credit creation. (6 marks)
- d) Money is a lubricant that allows the economy to run smoothly by lowering transaction costs. Discuss this statement within the context of the functions of money. (10 marks)

**QUESTION TWO (20 MARKS)**

- a) What is fiat money (2 marks)
- b) Explain four main functions of money in a modern economy (8 marks)
- c) What roles do non- bank institutions play in the economic growth and development of a country? Explain. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) Assuming you are the governor of central bank in your country, explain four measures you would put in place in order to achieve selective credit control policy (8 marks)
- b)
  - i What is likely to happen to the demand for money and interest rate if there is increase in government purchases in an economy (4 marks)
  - ii Explain the process of credit creation (4 marks)
  - iii Explain why speculative demand for money is inversely related to the rate of interest? (4 marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss the objectives of monetary policies in developing countries (10 marks)
- b) In the liquidity trap the demand for money because horizontal. Depict this graphically and explain why increases in the money supply do not affect interest rates, and thus aggregate spending, in the liquidity trap (5 marks)
- c) With the help of a graph, explain the effect of sale of bonds by government to the public on interest rates in an economy (5 marks)

**QUESTION FIVE (20 MARKS)**

- a) Discuss with help of examples factors that determine the rate of interest in an economy? (10 marks)
- b) Discuss some of the consequential economic impact of high and rising rate of interest (10 marks)