



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

EAE 401: MONETARY THEORY AND POLICY

DATE: 7/8/2019

TIME

INSTRUCTIONS

Answer question one and any other two questions. Question one carries 30 marks and the other questions carry 20 marks each.

QUESTION ONE (COMPULSORY)(30 MARKS)

- a) Define the following terms:
- i) Money and Financial Markets
 - ii) Repurchase agreement and
 - iii) Fractional reserve banking (6 marks)
- b) If 1,000 shillings commercial note with a maturity of 180 days is acquired by investors at a discounted price of Ksh. 980. Find the discount rate and then investment yield or rate (2 marks)
- c) Discuss any three types of the treasury bills issued by the government of Kenya.(6 marks)
- d) Suppose that the monetary base (**B**) is \$ 500 billion, the reserve deposit ratio (**rr**) is 0.1 and the currency-deposit ratio (**cr**) is 0.6.You are required to calculate:
- i) Money Multiplier
 - ii) Money Supply (4 marks)
- e) Explain how money stock and velocity cause inflation. (4 marks)
- f) Differentiate between aggregate demand and aggregate supply (4 marks)
- g) State any four properties of the Kenyan money (4 marks)
- h) State any two factors that shift the aggregate supply curve (2 marks)

QUESTION TWO (20 MARKS)

- a) There are major forms of economic policy (or, more strictly macroeconomic policy) conducted by governments that are of relevance. State and explain any five that you would propose to the Kenyan government. (10 marks)
- b) With the aid of a diagram explain the effects leftward shift in aggregate demand curve. Explain measures which policy measures can undertake counteract these effects. (10 marks)

QUESTION THREE (20 MARKS)

- a) Historically, monetary policy has, to a certain extent, been subservient to fiscal and other policies. Involved in managing the macro-economy, but nowadays it can be regarded as the main policy tool used to achieve various stated economic policy objectives (or goals). Explain five policy goals (10 marks)
- b) With the aid of a diagram, explain the effects of increase in government spending on the level of output and interest rate in the economy. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss any three theories of forming expectations. (10 marks)
- b) State and explain any five functions of money. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the classical theory of the demand for money. (10 marks)
- b) Discuss the Classification of the markets based on the type of instrument or service (10 marks)