MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS & FINANCE

BACHELOR OF ECONOMICS & STATISTICS

EAE 310: ECONOMICS OF MONEY AND BANKING

DATE: **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) Discuss factors that Determine the Money Multiplier and the magnitude of their effect (10 marks)

b) Discuss the evolution of money (10 marks)

c) Differentiate between the contractionary and expansionary fiscal policy. (10 marks)

QUESTION TWO (20 MARKS)

a) Compare and contrast Keynesian and Freidman theories of money demand (10 marks)

b) Discuss the functions and roles of Commercial banks in the economy (10 marks)

QUESTION THREE (20 MARKS)

a) Explain the attributes that any commodity should possess in order to serve as a medium of exchange (10 marks)

b) Discuss the importance of non-bank financial institutions in economic growth and development process of a country (10 marks)

QUESTION FOUR (20 MARKS)

a) Explain the primary and secondary functions of money (8 marks)

b) With aid of graphs discuss how interest rates and money supply is used by central bank to control how the economy performs (12 marks)

QUESTION FIVE (20 MARKS)

a) Discuss what OMO means in economics of money and banking while highlighting some of its limitations (12 marks)

b) Discuss the three motives used by Keynes in his Keynesian theory (8 marks)

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