



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

EAE 401/411: MONETARY THEORY AND POLICY

DATE: 20/1/2021

TIME: 8.30-10.30 AM

INSTRUCTIONS:

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

QUESTION ONE (30 MARKS)

- a) Monetary policy has 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)
- c) Discuss any three theories of forming expectations (10 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) Monetary policy has 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 that the Central Bank of Kenya pursues (10 marks)
- b) Over the last two decades the government of Kenya has witnessed expanding expenditures due to the increase in the number of the projects being carried out in the country. 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 giving clear application in each theory in the African context (10 marks)
- b) The basic characteristics of money as an important commodity in any economy. Such features of money have made it an important commodity. State and explain any five privileges that Kenyan citizens enjoy in possessing Kenyan currency (10 marks)

QUESTION FIVE (20 MARKS)

- a) Using a well-labelled diagram, demonstrate the transmission mechanism that in the Keynesian view is associated with an increase in money supply in the Kenyan economy. (5 marks)
- b) Explain the main role of financial intermediaries in solving the financial crisis in the Kenya's financial market (2 marks)
- c) Briefly evaluate the deposit multiplier as a determinant of money supply. (5 marks)
- d) Use specific examples from a developing country of your choice to demonstrate any four limitations of credit creation (8 marks)