MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF EDUCATION

EAE 310: ECONOMICS OF MONEY BANKING

DATE: 19/10/2020 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

Answer question ONE (COMPULSORY) and any other TWO Questions

QUESTION ONE (30MARKS)

a) Distinguish between narrow money and broad money (6 marks)

b) Explain the three instruments that central bank use to control money supply in your country (6 marks)

c) Explain why speculative demand for money is inversely related to the rate of interest? (7 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 (8 marks)

e) Explain credit inflation (2 marks)

QUESTION TWO (20MARKS)

a) What is flat 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? (10 marks)

QUESTION THREE (20MARKS)

a) Differentiate between the following pairs of concept:

Money Market Mutual Funds (MMMFs) and Money Market Deposit Accounts (MMDAs). (6 marks)

b) How is the Keynesian liquidity preference theory different from classical quantity theory of money? (4 marks)

c) Illustrate and explain the implications of an increase in money supply when an economy is experiencing a liquidity trap. (5 marks)

d) Outline any four limitations of the process of credit creation (5 marks)

QUESTION FOUR (20MARKS)

a) Discuss the objectives of monetary policies in developing countries (10 marks)

b) In the liquidity trap the demand for money becomes 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)