



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

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)