



# **MACHAKOS UNIVERSITY**

**University Examinations for 2019/2020 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ECONOMICS**

**THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR**

**BACHELOR OF ECONOMICS AND STATISTICS**

**BACHELOR OF ECONOMICS**

**EAE 310: ECONOMICS OF MONEY AND BANKING**

**DATE: 22/1/2021**

**TIME: 2.00-4.00 PM**

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## **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) 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)

**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) 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)