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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date: 12th April, 2019
Time: 8.30am – 10.30am

KFI 402 - MONEY AND BANKING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) The table below gives data on money stock and real and nominal GDP for 2005, and the money stock for 2006 through 2009. Assume that the growth rate in real GDP is 3% a year, and is constant.

Year	M1	Real GDP	Nominal GDP
2005	2000	9000	9000
2006	2100		
2007	2540		
2008	2925		
2009	3025		

REQUIRED:

- i) Calculate the velocity of money for 2005. (2 Marks)
- ii) If we assume that the velocity of money remains constant, find nominal GDP for years 2006 through 2009. (4 Marks)
- b) Assume that you have the following information about the banking system in Kenya. The required reserve ratio is 15%, currency in circulation is KShs.200 billion, checkable deposits are KShs.400 billion, and excess reserves total KShs. 0.4 billion.
Required:
- i) Calculate the M1 money supply. (2 Marks)
- ii) Calculate the money multiplier and explain what it means. (4 Marks)

- c) Explain why people hold money rather than bonds when bonds pay higher interest than money. (4 Marks)
- d) Differentiate between the following pairs of concepts;
- i) Fiat money and fiduciary money (4 Marks)
- ii) Demand deposits and time deposits (4 Marks)
- e) Suppose, that the price level in Kenya is expected to rise by 6% over the following year, what are the costs associated with this expected inflation? (6 Marks)

QUESTION TWO (20 MARKS)

- a) Explain the abandonment of barter trade and the introduction of money in financing transaction helped in the economic growth and development of countries. (10 Marks)
- b) Show how the development of monetary system can lead to differences in levels of economic growth of countries. Use cases of developed and developing countries. (10 Marks)

QUESTION THREE (20 MARKS)

- a) Empirical studies have shown that commercial banks in Kenya contribute to economic growth and development. Discuss five ways in which they do so. (10 Marks)
- b) Explain the properties that any commodity should possess in order to serve as a medium of exchange. (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the concept of liquidity trap. (4 Marks)
- b) Distinguish between the Classical and Keynesian theories of money demand. (10 Marks)
- c) Outline any three limitations on the process of credit creation. (6 Marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the objectives of monetary policies in developing countries. (10 Marks)
- b) Explain the role non-bank financial institutions play in the economic growth and development of a country. (10 Marks)