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

Date: 5th December, 2019
Time: 2.30pm – 4.30pm

KFI 303 - MONETARY THEORY AND POLICY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (COMPLUSORY)

- a) Differentiate between fiscal and monetary policy. (2 Marks)
- b) Describe the following channels of monetary policy transmission:
- i) Traditional interest rate effects. (2 Marks)
 - ii) Assets price effects. (4 Marks)
 - iii) Credit View Effects. (4 Marks)
- c) Explain Tobin's approach to speculative demand for money and show graphically the process of optimization of risk and return. (10 Marks)
- d) Discuss the key advantages of exchange rate targeting as a monetary policy strategy. (8 Marks)

QUESTION TWO (20 MARKS)

- a) State and explain Friedman's quantity theory of money. (10 Marks)
- b) Explain Baumol's theory of transaction demand for money. Does it really show that the transaction demand for money is interest-elastic? Explain. (10 Marks)

QUESTION THREE (20MARKS)

- a) What is inflation? (3 Marks)
- b) Explain the monetarists' approach to the phenomenon of inflation. (2 Marks)
- c) Elaborate on the traditional monetary measures to control inflation. (6 Marks)
- d) Explain how these measures, in (b), work to control inflation. (9 Marks)

QUESTION FOUR (20 MARKS)

- a) State the advantages and disadvantages of using monetary and inflation-Targeting as monetary policy strategies. (10 Marks)
- b) Discuss the factors that determine the effectiveness of monetary policy. (10 Marks)

QUESTION FIVE (20 MARKS)

- a) Define the term 'Balance of Payments' and explain its purpose. (4 Marks)
- b) Explain the monetary approach to the causes of disequilibrium in B.O.P. (6 Marks)
- c) Discuss the monetary authority's solutions to B.O.P disequilibrium. (10 Marks)