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KIRIRI WOMEN'S 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: 5th December, 2019

Time: 11.00am – 1.00pm

KFI 402 – MONEY AND BANKING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (COMPLUSORY)

- a) i) In the liquidity trap, the demand for money becomes horizontal. Depict this graphically. (5 Marks)
- ii) Demonstrate and explain why increases in the money supply do not affect interest rates, and thus aggregate spending, in the liquidity trap. (5 Marks)
- b) What is the yield to maturity on a bond that has a price of KShs. 20,000 and pays KShs.1,000 annually forever? (3 Marks)
- c) Explain why people hold money rather than bonds when bonds pay higher interest than money. (3 Marks)
- d) Differentiate between the following pairs of concept:
i) Money market mutual funds (MMMFs) and Money Market Deposit Accounts (MMDAs). (4 Marks)
ii) Fiat money and fiduciary money. (4 Marks)
- e) How is the Keynesian liquidity preference theory different from classical quantity theory of money? (6 Marks)

QUESTION TWO (20 MARKS)

- a) Briefly explain, giving examples the following terms and concepts as used in money and banking.
i) Open and market operations. (4Marks)
ii) Demand deposits. (2Marks)
iii) Token money (2Marks)
iv) Double coincidence of wants. (2Marks)
- b) Discuss with relevant examples the contribution of non-bank financial institutions in economic growth of a country. (6 Marks)
- c) Explain the main factors limiting credit creation. (4 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss with help of examples factors that determine the rate of interest in an economy?
(10Marks)
- b) Discuss some of the consequential economic impact of high and rising rate of interest.
(10 Marks)

QUESTION FOUR (20 MARKS)

- a) Using examples, discuss the two fundamental functions of money.
(6 Marks)
- b) 'Money is a curse in abnormal conditions instead of being a blessing'. Citing relevant examples, discuss the drawbacks of money in relation to this statement.
(6 Marks)
- c) Explain the attributes that money should possess in order to function properly in the economy.
(8 Marks)

QUESTION FIVE (20 MARKS)

- a) Suppose that in a country X, real GDP is \$10,000 billion, the velocity of money is 5, and the money stock is \$2,500 billion. What is the price level?
(4 Marks)
- b) Explain briefly using examples the concept of money illusion.
(4 Marks)
- c) Discuss the motives of holding money in the Keynesian system?
(9 Marks)
- d) Predict what will happen to the money supply if there is a sharp rise in the currency ratio.
(3 Marks)