KENYATTA UNIVERSITY
SCHOOL OF ECONOMICS
DEPARTMENT OF APPLIED ECONOMICS
EXAMINATIONS FOR 2018/2019 ACADEMIC YEAR

EAE 310: Economics of Money and Banking Exam

***INSTRUCTIONS:** Answer Question One and ANY other TWO Questions*

Externally Moderated 03/02/2

QUESTION ONE

a. Write short notes on the following

i.	Minimum legal cash reserves ratio	3 marks
ii.	Selective credit control	3 marks
iii.	Moral suasion	3 marks
iv.	Fiat money	3 marks
v.	full bodied money	3 marks

b. State five attributes that any commodity should possess in order to serve as medium of exchange 5 marks

c. Suppose that you have the following information about a banking system in Kenya. The money supply is \$6,000,000, currency held by the public is \$2,000,000, and reserve deposit ratio is 0.25.

Required:

i.	Calculate the Deposits	2 Marks
ii.	Calculate the Bank Reserves	2 Marks
iii.	Calculate the Monetary Base	2 Marks
iv.	Calculate the Money Multiplier	2 Marks

d. Money is described as "hot potato" that is quickly passed from one person to another during a hyperinflation. Explain why this is the case. 2 marks

QUESTION TWO

a. Before money system came to be, merchants depended on Barter trade system in their operations. Barter trade had been synonymous with a myriad of problems which led to merchants and business people to shift from usage of barter trade system to money system. Clearly explain any five problems associated with barter trade system. (10 marks)

b. Explain the main functions of a central bank and show how it controls the quantity of currency and credit in the country (10 marks)

QUESTION THREE

a. The money supply M has been growing at 10% per year, and nominal GDP PY has been growing at 20% per year. The data are as follows (in billions of dollars):

	2001	2002	2003
M	100	110	121
PY	1,000	1,200	1,440

Calculate the velocity in each year. At what rate is velocity growing? 7 marks

b. Highlight five factors that determine money supply in an economy (5 marks)

c. ~~Highlight four factors that limit credit creation of commercial banks~~ ~~(8 marks)~~

Explain factors that determine the rate of interest in an economy. (8mks)

QUESTIONS FOUR

a. If nominal Kenya GDP in a year is estimated as $5 trillion and the quantity of money supplied by the Central Bank is $1 trillion, calculate the money velocity and give its meaning. Explain what happens if the money supply doubles to $2 trillion. 7 marks

b. Discuss 4 roles of commercial banks in the process of expansion of money supply, indicating the limitations of each process in the developing economies. 8 marks

c. Explain five types of money in an economy, explaining each its liquidity stature. 5 marks

rephrase the question.

QUESTION FIVE

a. During the 1980s, automatic teller machines became widely available. Describe 3 ways in which this has affected money demand. (6 marks)

b. Explain 4 advantages Open market operations have over the other tools of monetary policy. (8 marks)

c. Explain 3 reasons why Keynes's analysis of the speculative demand for money is important to the view that velocity will undergo substantial fluctuations and thus cannot be treated as constant? (6 marks)