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KENYATTA UNIVERSITY

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UNIVERSITY EXAMINATIONS 2019/2020

SECOND SEMESTER EXAMINATIONS FOR THE MASTER OF ECONOMICS DEGREE

EAE 803: MONETARY THEORY AND POLICY

Time: 09.00 - 12.00 GMT **Date: APRIL 2020**

INSTRUCTIONS:

Answer a total of FOUR questions: All questions carry 15 marks each.

QUESTION ONE

a). Giving relevant examples from your country, explain the vitality of money in the economy. **(8marks)**

- Too simple for this level - set (c) and reallocate marks

b). Derive Tobin's (1958) mean-variance model of asset demands which holds for any risky portfolio. **(7marks)**

QUESTION TWO

a). Distinguish between the classical and Keynes' theories of the demand for money. **(9marks)**

b). Explain and derive the money multiplier theory as a multiple of high powered money. **(6 marks)**

- Simple questions for this level

QUESTION 3

Explain the following channels of monetary policy transmission mechanism:

a). The direct effect of the interest rate **(3 marks)**

b). The assets channel **(3 marks)**

c). The exchange rate channel **(3 marks)**

d). The credit channel **(3 marks)**

e). Expectations of economic agents **(3 marks)**

QUESTION 4

a). Define and explain using examples from your country the target variables for monetary policy in ~~a~~ an economy **(4 marks)**

b). Explain the meaning of independence of the Central Bank **(4 marks)**

c). Highlight four measures of central bank independence and explain whether or not they exist in your country. **(4 marks)**

d). Explain the determinants of the Central Bank Independence and Transparency using your country experience. **(3 marks)**

What's the difference between (b) and (d)? Set another question.

=> Standard of the question seem to be quite low for MA