



**BACHELOR OF COMMERCE
BACHELOR OF BUSINESS LEADERSHIP**

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BUS 2423

COURSE TITLE: MONEY AND BANKING

TIME:

INSTRUCTIONS

- This examination script consists of **FIVE (5)** questions.
- Read all questions carefully before attempting.
- Question **One** is compulsory and Answer any **THREE (3)** questions.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

- a) Discuss any THREE measures that the Central Bank uses to stabilize foreign exchange rates, between the Kenya shilling and the dollar, in order to restore value of Kenyan goods and services. (3 Marks)
- b) Electronic banking is the latest innovation in the banking industry. Explain how it has brought efficiency to the Kenyan banks. (5 Marks)
- c) While Barter trade was a dependable form of trade in the pre-monetary period in Africa, it had many problems. Explain with examples FIVE desirable characteristics of modern money that makes it better than Barter trade system. (5 Marks)
- d) Explain the term of “Money Laundering” (2 Marks)
- e) Discuss FOUR measures banks in Kenya need to take to prevent money laundering. (4 Marks)
- f) Describe using an example in each case THREE instruments of monetary policy that are used in Kenya. (6 Marks)
- g) Given that $M_d = Y(0.55 - i)$ and $y = 90,000$
- Find the demand for money when the interest rate is 10 percent (2 Marks)
 - If y decreases by 50 percent what happens to the money demand in percentage terms (3 Marks)

QUESTION TWO

Explain the following terms as used in money and banking giving an example in each case.

- Purchasing power of money (2 Marks)
- Liquidity of money (2 Marks)
- Non-performing loans (2 Marks)
- Deposits protection fund (2 Marks)
- Money multiplier (2 Marks)

QUESTION THREE

With reference to Keynesian theory of demand for money, evaluate the different motives for holding money. (10 Marks)

QUESTION FOUR

Suppose you are given the following information about an economy

$$C = 80 + 0.8Y_d - \text{consumption}$$

$$I = 60 + 0.2Y - \text{Tax}$$

$$I = 200 - 10i - \text{investment}$$

$$G = 200 - \text{Government expenditure}$$

$$X = 10 - \text{export}$$

$$M = 150 + 0.06Y - \text{imports}$$

$$M^D = 0.4Y + 300 - 20i - \text{money demand}$$

$$M^S = 4000 - \text{Money supply}$$

Required:

- a) Derive the IS and LM schedules. (6 Marks)
- b) Calculate equilibrium consumption (4 Marks)

QUESTION FIVE

Commercial banks make profits by selling liabilities which they transform into assets to generate income. According to economic survey report of 2014 Kenya has 43 commercial banks.

Required

- a) Discuss the services provided by Commercial Banks in Kenya in their process of asset transformation for income generation. (5 Marks)
- b) Explain FIVE factors that commercial banks take into account when pricing (charging interest rates) on their assets (loans) (5 Marks)