PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS LEADERSHIP

MAY-AUGUST 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: CFN 404

COURSE TITLE: MONEY & BANKING

EXAM DATE: THURSDAY 8th AUGUST 2019

DURATION: 2 HOURS

TIME: 9:00AM-11:00AM

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- **This Exam Script has Six (6) questions.**
- Answer question **ONE** and ANY other **THREE** Questions.
- *ALL PAC University's examination rules and regulations apply*

QUESTION ONE: (COMPULSORY)

a) With a relevant example in each case, describe how money functions as a:
   i) Store of Value (4 marks)
   ii) Standard of Deferred Payment (4 marks)
   iii) Unit of Account (4 marks)

b) Discuss how commercial banks in Kenya achieve the following objectives:
   i) Maintaining economic stability (3 marks)
   ii) Enhancing trade (3 marks)
   iii) Building capital (3 marks)
   iv) Profitability (3 marks)

c) Describe the three forms of market efficiency under rational expectancy theory (6 marks)

QUESTION TWO

With a relevant example in each case, explain how the following channels of monetary transmission mechanisms affect lending and investment activities:

a) Bank lending channel (3 Marks)
b) Unanticipated price level channel (3 Marks)
c) Household liquidity effects (4 Marks)

QUESTION THREE

a) Explain the effect of an increase in money supply on public debt when expectations of inflation are low (5 Marks)
b) 'A higher rate of interest will induce people to hold less cash'. Discuss this statement (5 marks)

QUESTION FOUR

a) Describe how prices at the Nairobi Securities Exchange (NSE) will behave in the event of an increase in the official interest rate (4 Marks)
b) Discuss any three instruments of monetary policy that are used by the Central Bank of Kenya to stabilize the prices (6 Marks)

QUESTION FIVE

a) Explain why monetary policies may not be very effective in developing countries (4 Marks)
b) Discuss any three anomalies of the Efficient Market Hypothesis (6 Marks)

QUESTION SIX

a) Discuss any two limitations of the Classical theory of Money Supply (4 Marks)
b) Using a hypothetical illustration, explain the effect on the size of the money supply if:

a) Currency reserves decreases by 7% (2 Marks)
b) Reserves increases by 4% (2 Marks)
c) Demand deposits decreases by 5% (2 Marks)