BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: CFN404

COURSE TITLE: MONEY & BANKING

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer Question ONE and ANY other three Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

a) Using an example, discuss any two ways in which interest rates affect demand for money (4marks)
b) Describe the relevance of the following characteristics of money, and provide illustrations:
   i) Relative scarcity (2 marks)
   ii) Stability (2marks)
   iii) Homogeneity (2marks)

QUESTION TWO

Discuss how commercial banks in Kenya achieve the following objectives:

a) Enhancing trade (5 marks)
b) Controlling exchange rates (5 marks)

QUESTION THREE

a) Explain the term 'Monetary transmission mechanism' (2marks)
b) Citing examples from Kenyan economy, discuss how a change in official interest rate will cause change in:
   i) Aggregate output (4marks)
   ii) Inflation (4marks)

QUESTION FOUR

a) Define the term monetary policy (2 marks)
b) Explain how the following pairs of monetary policy objectives conflicts:
   i) Full Employment and price stability (4marks)
   ii) Price stability and economic Growth (4marks)

QUESTION FIVE

Describe how the following factors affect the money supply in Kenya

a) High powered money (5marks)
b) Size of the money multiplier (5marks)

QUESTION SIX

a) Explain how monetary policy affects investing activities if a higher net worth of a publicly listed company is reported (4 Marks)
b) Citing examples from Kenyan economy, discuss the three assumptions of rational expectations theory (6marks)