PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: CFN404

COURSE TITLE: MONEY & BANKING

EXAM DATE: TUESDAY

TIME: 8.OOAM

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) Citing any two examples in Kenya, distinguish between the following functions of money:
   i) The store of value and the measure of value (3marks)
   ii) Medium of exchange and unit of account (3marks)
b) Describe the relevance of the following characteristics of money, and provide illustrations:
   i) Relative scarcity (2 marks)
   ii) No intrinsic value (2marks)

QUESTION TWO

a) Explain how the following pairs of monetary policy objectives conflicts:
   i) Full Employment and price stability (2marks)
   ii) Price stability and economic Growth (2marks)
b) Using a relevant example in each case, describe how banks in Kenya:
   i) Create money against money (3marks)
   ii) Helps in stabilizing the economy (3marks)

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) Describe any two ways in which Tobin's approach differs from Baumol's approach towards money demand (4marks)
b) Citing relevant examples from the economy, explain two reasons why expectations can fail to be rational in the strong-form version of rational expectation theory (6marks)

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 credit view cashflows channel of monetary transmission affects the aggregate demand in an economy (4 Marks)
b) ‘The fundamental principle of the classical theory is that the economy is self-regulating’. Discuss this statement (6 Marks)