



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS
BSC. ECONOMICS
BSC. FINANCIAL ECONOMICS
BSC. ECONOMICS AND STATISTICS**

COURSE CODE: ECO 2205-1

**COURSE TITLE: ECONOMICS OF MONEY AND
BANKING**

DATE: 20/4/2023

TIME: 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

1. Answer Question **ONE** and any other **TWO** questions
*This paper consists of **two** printed pages. Please turn over.*

QUESTION ONE (20 MARKS)

a) Consider an economy described by the following data

$$\bar{C} = 3.25 \text{ Trillion}$$

$$\bar{I} = 1.3 \text{ Trillion}$$

$$\bar{G} = 3.5 \text{ Trillion}$$

$$\bar{T} = 3.0 \text{ Trillion}$$

$$\bar{NX} = -1.0 \text{ Trillion}$$

$$\bar{f} = 1$$

$$\text{mpc} = 0.75$$

$$d = 0.3$$

$$x = 0.1$$

- i. Derive the simplified expressions for the consumption, the investment function, and the net export function **(6 Marks)**
 - ii. Derive the equation for the IS curve. **(4 Marks)**
 - iii. If the real interest rate is $r = 2$, what is equilibrium output? If $r = 5$, what is the equilibrium output? **(4 Marks)**
 - iv. Draw a graph of the IS curve showing the answers from part (iii) above? **(2 Marks)**
- b) Discuss the factors that influence the velocity of money in an economy? **(4 Marks)**

QUESTION TWO (15 MARKS)

- a) Discuss the instruments used to control money supply in Kenya. **(10 marks)**
- c) Mathematically derive a theory of inflation from the quantity theory of money **(5Marks)**

QUESTION THREE (15 Marks)

- a) Rapid Technological innovation is ushering in new era of public and private digital money in Kenya. Discuss . **(9 Marks)**
- b) Discuss the three Keynesian Motives for holding Money **(6 Marks)**

QUESTION FOUR (15 MARKS)

Consider the following money demand function (in real terms)

$$M/P = kY + bi$$

where k is the income elasticity and b is the (nominal) interest rate elasticity of real money balances.

Assume that $k > 0$ and that $b > 0$.

Further assume that the quantity of nominal money balances is fixed by the Central Bank at M and that the price level, P , is also fixed at P .

- a. Derive the equation for the LM curve. **(6 Marks)**
- b. What is the slope of the LM curve? **(3 Marks)**
- c. Discuss how the slope of the LM curve is affected by k and b . **(6 Marks)**