# MAASAI MARA UNIVERSITY

## REGULAR UNIVERSITY EXAMINATIONS
## 2017/2018 ACADEMIC YEAR
### SECOND YEAR SECOND SEMESTER

## SCHOOL OF BUSINESS AND ECONOMICS
## BACHELOR OF SCIENCE (ECONOMICS, ECONOMICS AND STATISTICS, FINANCIAL ECONOMICS)

**COURSE CODE:  ECO 2205**
**COURSE TITLE: ECONOMICS OF MONEY AND BANKING**

**DATE: 26TH APRIL, 2018**                    **TIME: 1100 – 1300 HRS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

**QUESTION ONE**
   a)  i)  Define the concept money. **(3 mks)**
       ii) How does the economist's use of this term differ from everyday
           meaning? **(3 mks)**

   b) Discuss the evolution of money policy in less developed economies.
   **(5 mks)**

   c) Explain the objectives of monetary policy in less developed economies.
   **(5 mks)**

   d) Money demand in an economy in which no interest is paid on money is:-
      $$\frac{M^d}{P} = 500 + 0.2Y - 1000i$$
      Where P = 100, Y=1,000    i=0.01
      Find;
      i) Real money demand
      **(2 mks)**
      ii) Nominal money demand. **(2 mks)**
      iii) Velocity **(2 mks)**

   e) Explain factors responsible for banking crises in third world economies.
   **(3 mks)**

**QUESTION TWO**
   a)  Discuss three major policy instruments used by Central banks to control
       money supply. **(3 mks)**

   b)  Explain the neutrality of money concept.
   **(3 mks)**
   c)  Draw a diagram of the domestic money market in equilibrium.
   **(5 mks)**

   d)  Differentiate between barter transaction system and money transaction
       systems. **(4 mks)**

## QUESTION THREE

a) Explain the following concepts as used in economics of money and banking.
   i) Money multiplier **(2 mks)**
   ii) Liquidity trap **(2 mks)**
   iii) LM curve **(2 mks)**
   iv) Dynamic model **(2 mks)**

b) Discuss various components of money. **(3 mks)**
c) Use hypothetical examples to explain the process of credit creation in the banks. **(4 mks)**

## QUESTION FOUR

a) Explain the role of financial intermediaries in third world economies. **(4 mks)**
b) Describe the characteristics necessary for use of any commodity money over a long period. **(5 mks)**
c) Explain factors that affect the following:-
   i) Demand for money **(3 mks)**
   ii) Supply of money **(3 mks)**

## QUESTION FIVE

a) Explain how money is measured. Use hypothetical examples for illustration. **(3 mks)**

b) Describe how interest rates are determined under:-
   i) Classical approach **(3 mks)**
   ii) Keynesian approach **(3 mks)**

c) Explain the objectives of International Monetary Fund under Articles of Agreement Chapter Four. **(6 mks)**

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