THE CO-OPERATIVE UNIVERSITY COLLEGE OF KENYA

END OF SEMESTER EXAMINATION APRIL 2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE (YEAR II SEM 2)

UNIT CODE:  
UNIT TITLE: MONEY AND BANKING

Date:  
time:  

Instructions : Answer question ONE and any other TWO questions.

QUESTION ONE
(a) Explain four functions of money (8mks)

(b) Given an initial monetary base injection of 250 million shillings and further that the central bank places a 15% minimum reserve requirement ration on commercial banks while the public deserves to hold 25% of the money it receives. Calculate the total money that will be in circulation after the full money multiplier (6 mks)
(c) How different is the Keynesian transaction demand for money from baumols specification (6mks)
(d) Explain both the minimum reserve requirement ratio and a bank rate as money supply control tools. What limits their effectiveness in developing economies? (10mks)

QUESTION TWO
a) Explain five determinants of money supply (5 mks)

b) Enumerate on the various measures that can be used to control inflation. (10 marks)

c) in the context of monetary policy list five advantages of exchange rate stability. (5 mks)

QUESTION THREE
a) Briefly explain, giving examples the following terms and concepts as used in money and banking
i)Open market operation (3marks)
ii)Demand deposit (3 marks)
iii)Precautionary demand for money (3marks)
iv)Credit creation (3 marks)
v)Fiduciary issue (3marks)

b) What factors determine the rate of interest in an economy.? (5marks)

QUESTION FOUR
a) Discuss the main disadvantages of an economy in which incomes are paid in kind and transactions are carried out by barter. (10 marks)
b) Explain the difference between commercial banks and The Central Bank (10 marks)

QUESTION FIVE

a) Describe the role that non bank financial institutions play in facilitating economic development in a country. (10 marks)

b) Discuss some of the consequential economic impact of high and rising rate of interest. (10 marks)