

THE CO-OPERATIVE UNIVERSITY COLLEGE

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS

UNIT CODE: HCOB 2311

UNIT TITLE: MONETARY THEORY AND PRACTICE

INSTRUCTIONS

Answer question **ONE (compulsory)** any other **TWO** questions

QUESTION ONE

(a)(i) Define money (2 marks)

(ii) Define demonetization (2 marks)

(iii) Briefly explain how demonetization can be used to control money supply in the economy. (5 marks)

(b) Explain the factors that Friedman argued influence demand for money (10 marks)

(c) Explain the three motives of liquidity preference identified by Keynes. (6 marks)

(d) Explain the propositions of the rational expectations hypothesis (5marks)

QUESTION TWO

(a) Discuss the classical theory of interest rate determination (10 marks)

(b) Explain the **FIVE** objectives of monetary policy (10 marks)

QUESTION THREE

a) Discuss the factors that determine the monetary transmission mechanism in an economy (8 marks)

b) Discuss the various channels of monetary policy transmission mechanisms active in the Kenyan Economy (12 marks)

QUESTION FOUR

(a) Explain the role of Central Bank in the economy. (10 marks)

(b) Distinguish between Monetarists and Keynesians views on an increase in money supply. 10 marks)

QUESTION FIVE

(a) Central Bank of Kenya uses several instruments to control money supply in the economy. Explain monetary instruments used by Central Bank of Kenya. (10 marks)

(b) Briefly explain the factors that cause changes in nominal interest rates in the economy. (10 marks)