The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2018

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS
UNIT CODE: HCOB 2311
UNIT TITLE: MONETARY THEORY AND POLICY

DATE: DECEMBER, 2018 TIME:

INSTRUCTIONS:
- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE
(a) Explain the meaning of the following concepts as used in monetary economics. Use examples where necessary (6 marks)
  i. Wealth
  ii. Savings
  iii. Demand deposits
  iv. Quasi – money
  v. Time deposits
  vi. Money illusion
(b) There several approaches to the definition of money according to Harry G. J and Edgar L.F (1953). Explain any THREE of these approaches (6 marks)
(c) Why is the barter trade system hard to implement in the modern day (6 marks)
(d) Describe the role of money in economic growth citing relevant examples in Kenya (8 marks)
(e) Explain the difference between high powered money and money supply (4 marks)

QUESTION TWO
(a) Distinguish between nominal money and real money balances (4 marks)
(b) According to the fisher's transaction approach, demand for money depends on the three factors. State and explain the factors (6 marks)
(c) Fishers's equation of exchange state the $Md = {^{PT}}/{_V}$. Suppose the quality of money is kshs 5,000,000 in an economy, the velocity of circulation of money (V) is 5; and the total output to be transacted (T) is 250,000 units (5 marks)
  i. What is the average price in this economy
  ii. The quantity of money is increased to Kshs 10,000,000. What would be the new price level
  iii. Based on results in (ii) above what is your conclusion about the quantity theory of money
(d) Compare and contrast the Fisher's transaction theory and the Cambridge cash balance approach (5 marks)

QUESTION THREE

(a) Explain the Keynesian liquidly preference theory and highlight its key limitations

(8 marks)

(b) State the Fiedman money demand function and explain the determinants of demand for money (6 marks)

(c) Explain similarities and difference between Tobin and Baumol's approaches to demand for money (6 marks)

QUESTION FOUR

(a) Describe FIVE similarities and TWO differences between the Friedman and Keynesian theories of money demand (7 marks)

(b) Kenya economy has experienced high volatility in interest rates leading to interest rates capping. Discuss any FIVE determinants of interest rates in a country (5 marks)

(c) Boumal has shown that the average amount of cash withdrawn which minimizes the cost is given by $C = \sqrt{2by}/r$

Where Y = size of pay cheque

b = brokerage fee

r = interest rates

Explain the effect of

   i.   r on C (2 marks)

   ii.   b on C (2 marks)

   iii.   Y on C (2 marks)

(d) Discuss the determinant of money supply in your country

QUESTION FIVE

(a) Describe any FOUR objective of monetary policy and how some of those objectives sometimes conflict (5 marks)

(b) How does the central bank contribute to economic growth (5 marks)

(c) Explore the various avenues through which monetary policy in Kenya has impacted on economic growth. In your own considered opinion, is monetary policy effective in Kenya (5 marks)

(d) Monetary policy plays a more limited role in developing countries for a number of reasons. What are the limitations of monetary policy in the Sub-Saharan African countries (5 marks)