



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY- AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCFI 301

COURSE TITLE: MONETARY THEORY AND PRACTICE

DATE: 23 AUGUST 2023

TIME: 8:00 AM – 11:00 AM

INSTRUCTIONS TO CANDIDATES

- 1. SECTION A IS COMPULSORY.**
- 2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.**
- 3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.**
- 4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.**

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

- a) Monetary theory is one of the interventions that aim at influencing the level and pattern of economic activities. Explain six objectives of monetary policies **[12 Marks]**
- b) Sometimes, the objectives of monetary policy conflict and the Central Bank has to strike a balance. Discuss. **[12 Marks]**
- c) Explain the characteristics of money, clearly describing how each characteristic solves the problems that were encountered in the Barter trade. **[8 Marks]**
- d) Explain the following terms as used in Monetary Theory and Practice
 - i. Money Supply **[4 Marks]**
 - ii. Finance Markets **[4 Marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) Explain the key differences between Commercial Banking institutions and Non-Bank Institutions **[14 Marks]**
- b) During inflation, the price level changes, causing the devaluation of money. Explain **[6 Marks]**

Question Three

- a) Credit Creation is the process by which the Bank is able to lend out more money than what was received in deposits. Explain the limitations of credit creation. **[14 Marks]**
- b) Discuss three factors that influence the demand for money. **[6 Marks]**

Question Four

- a) Assuming that the money supply in an economy is kshs 1M and a velocity of 12 times. Calculate the output of the money. **[6 Marks]**
- b) Financial institutions are crucial especially in re investment of savings. Discuss seven tools common in financial Markets. **[14 Marks]**

Question Five

- a) Discuss the motives of holding money as expounded in the Keynesian Theory of money. **[12 Marks]**
- b) Explain the factors that affect the demand for money **[8 Marks]**