



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY-APRIL 2025 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCFI 301

COURSE TITLE: MONETARY THEORY & PRACTICE

DATE: 3 APRIL 2025

TIME: 8.00 AM – 10.00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **TWO** 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

The leader of the monetarist school is considered to be Milton Friedman and other advocates included Karl Brunner, David Laidler and Milton P. Parkier. Monetarists argue that since money is a direct substitute for all other assets, an increase in the money supply, given a fairly stable velocity of circulation, will have a direct effect on the demand for other assets since there will be more money to spend on those assets. If the total output of the economy is fixed, then an increase in the money supply will lead to higher prices.

- a) Briefly explain the origin of money. **[5 marks]**
- b) Explain four limitations of monetarist theories. **[8 marks]**
- c) There are mainly 3 schools of thought on monetary theory. Discuss the theories. **[9 marks]**
- d) Define the term money and give two types of money. **[4 marks]**
- e) Discuss the main two types of inflation. **[4 marks]**

SECTION B: ANSWER ANY TWO QUESTIONS

Question Two

- a) Money is any generally acceptable medium of exchange in a society in exchange for goods and services. Explain five functions of money. **[10 marks]**
- b) A central bank is a public institution that usually issues the currency, regulates the supply of money and controls the interest rates in a country. Discuss five functions of central bank. **[10 marks]**

Question three

- a) Commercial banks are financial institutions that accept deposits of money from the general public, safeguard the deposits and make the available to their owners when need arises. Explain five functions of a commercial bank. **[10 marks]**
- b) Credit card finance is an arrangement whereby a company makes arrangement for the use of services of credit card organization in return for prompt settlement of bills on the

card and a commission payable on all credit transactions. List five limitations of credit cards as a source of finance. **[10 marks]**

Question Four

a) Describe the concept of ‘value for money theory’ and describe a real life example.

[8 marks]

b) Instruments of monetary policy are used by Central Bank in pursuing monetary policy.

Explain six instruments of the monetary policy.

[12 marks]

Question five

a) There are two ways on how a government can finance deficit from the public and with the help of its monetary authorities. Explain the two ways. **[4 marks]**

b) Economists recognize the government may encounter a number of significant challenges in enacting and applying fiscal policy. Explain three problems associated with timing. **[6 marks]**

c) Explain any five reasons that led to abandonment of barter trade for money. **[10 marks]**