University Examinations 2011/2012

THIRD YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE

HBC 2222: MONETARY THEORY AND PRACTICE

DATE: APRIL 2012   **TIME: 2 HOURS**

INSTRUCTIONS: *Answer question **one** and any other **two** questions*

QUESTION ONE (30 MARKS)

    a. Explain the principles under which a central bank is run   (6 Marks)
    b. Discuss the main functions of a central bank   (12 Marks)
    c. Explain the main functions of commercial banks   (4 Marks)
    d. Discuss the role of commercial bank in economic development in your country
        (8 Marks)

QUESTION TWO (20 MARKS)

    a. What are the basic functions of money   (8 Marks)
    b. Discuss the significance of money in a modern economy   (10 Marks)
    c. Explain the different kinds of money available in a modern economy   (2 Marks)

QUESTION THREE (20 MARKS)

    a. Discuss the motives for holding money in Keynesian model   (9 Marks)
    b. Explain both Fisherian and Cambridge's version of money demand theories
        (11 Marks)

QUESTION FOUR (20 MARKS)

    a. Explain the meaning and scope of monetary policy   (4 Marks)
    b. Explain monetary policy transmission mechanism   (12 Marks)
    c. Explain the factors that determine effectiveness of monetary policy   (4 Marks)

QUESTION FIVE (20 MARKS)

The money and commodity market for an economy are defined by the following equation.

Commodity market.

$Y = C + I$

$C = 200 + 2/5y$

$I = 1900 - 12r$

Money market:

$M_{DT} = \frac{1}{2} Y$

$M_{D3} = 1000 - 10r$

$M_3 = 1500$

   i.   Derive the I_s and LM functions for the economy   (5 Marks)
  ii.   What is the equilibrium income and rate of interest for the economy   (5 Marks)
 iii.   Explain the role central bank on promoting economic growth of the country
                                                        (10 Marks)