MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF MASTER OF ARTS IN ECONOMICS

CITY CAMPUS - WEEKEND

AEC 819: MONETARY THEORY AND PRACTICE

Date: 30th April, 2016 Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer ONLY FOUR questions
- DO NOT write on a question paper.

Q1.(a) Critically examine the following schools of thought of Professor Johnson as regards the definition of money:

(i) The Gurley and Shaw view (3 marks)
(ii) Chicago Quantity Theory (3 marks)
(iii) Traditional School of Thought (3 marks)
(iv) Radcliff School (3 marks)

(b) Critically explain the difference that exists between optional money and money of account. (2 marks)

Q2.(a) It is important to understand that all commodities that are used by the consumers have different economic significance to the consumers in Kenya. The degree of importance is considered as "weight". The table 1:1explains the construction of weight price index number in Kenya

Commodity	Base year (2007		Current year 2015	
	Price (P_0) Kshs	**Weight (W) Kshs**	**Price (P_1) Kshs**	**Weight (W) Kshs**
Wheat	50	8	21.5	6
Rice	60	6	63.5	6.5
Cloth	30	3	29.0	4
Sugar	40.5	6	44.3	8
Blueband	45.2	6	49.4	8.3
Fuel	19.3	4	19.4	2

Required:

Calculate the following
(i) Value of the base year 2007 (1 mark)
(ii) Value of the current year 2015 (1 mark)
(iii) Weight price index of 2015 (1 mark)

(b) "Index numbers were not used extensively before 1860. Today we employ index numbers not only to measure changes in prices of goods and value of money but also to measure changes in production imports, exports and consumption" In the light of this statement, describe the important components that are considered when constructing price index number in Kenya. (12 marks)

Q3. Diminishing return to the scale is experienced when less efficient labour and capital are employed, output increases at a slow rate than a given increase in total money demand and it leads to high prices in the market.

With the help of output, quantity of money and price, Explain Keynes theory of money and prices (15 marks)

Q4. With the help of Friendman's wealth demand function, describe the variables in the function and explain the determinants of demand for money as wealth in the economy of Kenya. (15 marks)

Q5.(a) By the use of graphs, show Keynes hinted at a remote possibility of a situation when the market rate of interest decreases to a critical minimum level in Kenya. (10 marks)

(b) Explain the rate of inflation that is considered moderate . (5 marks)

Q6.(a) Discuss the effect of expansion monetary policy to economy. (5 marks)

(b) With the assistance of the IS-LM model, describe the interdependence of product market and money market. (10 marks)