MONETARY THEORY AND PRACTICE

INSTRUCTION TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

SECTION A

QUESTION ONE

a) What is velocity of circulation (2mks)
b) How are changes on the value of money made (5mks)
c) Explain the concept of central bank lender of the last resort (4mks)
d) Explain how saving and investment are equal to equilibrium (10mks)
e) Explain the role of monetary policy in a developing economy (9mks)

SECTION B

QUESTION TWO

a) Explain the limitations of open market operations as a tool of controlling credit creation (5mks)
b) The obvious objective of monetary policy should be to obtain equilibrium between saving and investment at the point of full employment'. Discuss. (15mks)

QUESTION THREE

a) 'Techniques of monetary control used by central banks are complementary rather than competitive'. Discuss.
b) Describe the monetary policy management in Kenya (5mks)

QUESTION FOUR

a) Differentiate between adaptive expectations and rational expectations (5mks)
b) 'Change in the value of money is not caused by a change in the quantity of money. It is rather a consequence in the level of income'. Explain. (15mks)