QUESTION ONE IS COMPULSORY

ANSWER ANY OTHER TWO QUESTIONS

QUESTION ONE (COMPULSORY) 30 MAKRS

1. Explain various objectives of monetary policy.(10 marks)
2. Explain how Cambridge Cash Balance approach differs from Fishers transaction approach in relation to money demand. (6marks)
3. Explain how Open Markets Operations (OMO) is limited as a monetary policy instrument in developing countries.(4marks)
4. Explain the effectiveness of monetary policy in the liquidity trap phenomenon.(4marks)
5. Explain the three transmission mechanisms monetary policy. (6marks)

QUESTION TWO (20MARKS)

1. Distinguish between Monetary and Fiscal policy. (4 marks)
2. What are the factors that determine the effectiveness of monetary policy ( 8marks)
3. What are the benefits of using inflation –targeting as a strategy for the conduct of monetary policy? ( 8 MARKS)

QUESTION 3 (20 MARKS)

1. How is Tobin approach to speculative demand for money different from Keynes approach?(10 MARKS)
2. Explain the income version of the quality theory of money .how is this version different from fishers transaction equation ?( 10 MARKS)

QUESTION FOUR (20 MARKS)

1. How are interest rates and inflation related?(6marks)
2. What is disinflation? (2marks)
3. (i) State three traditional monetary measures to control inflation ( 9marks)

(ii)Explain how these measures, part (i) above, work to control inflation. (9marks)

QUSTION FIVE (20 MARKS)

1. Illustrate and explain Tobin’s method of deriving function for speculative money (10 marks)
2. “ Keyne’s criticism of the classical interest theory applies equality to his own theory ”. Explain and justify this statement. (10 marks)