

**UNIVERSITY OF KABIANGA**

**UNIVERSITY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF ARTS(ECONOMICS)**

**COURSE CODE: *ECO 216***

**COURSE TITLE: ECONOMICS OF MONEY AND BANKING**

**Instructions:**

Answer question **ONE** and any other **THREE** questions

**QUESTION ONE**

1. Explain the essential qualities of a good money. (6 marks)
2. Briefly explain the various kinds of money. (5 marks)
3. Provide a brief explanation on the determinants of interest rates. (6 marks)
4. “The functions of money can be efficiently discharged only when its general purchasing power is secured against drastic changes.” Discuss. (8 marks)

**QUESTION TWO**

1. Discuss the role of commercial banks in the process of expansion of money supply, indicating the limitations of the process. (10 marks)
2. Describe the stages in the development of money. (5 marks)

**QUESTION THREE**

1. Assess the factors that influence shift in demand for and supply of money in an economy. (9 marks)
2. Give brief explanation of the objectives of monetary policy of the Kenyan government. (5 marks)

**QUESTION FOUR**

Well organized central banks play important roles such as controlling the domestic price level, stabilizing the foreign exchange and preventing the occurrence of financial crisis.

1. Explain how a central bank can execute the above-mentioned functions. (9 marks)
2. Explain how central banks protect the commercial banks from failing. (6 marks)

**QUESTION FIVE**

1. IMF’s role as an international lender of last resort creates a serious of moral hazard problem that can encourage excessive risk taking and make financial crisis likely.
2. What is your understanding of moral hazard as stated in the statement? (1 mark)
3. Explain the objectives of IMF. (5 marks)
4. Explain the limitations of the functioning of IMF. (5 marks)
5. Briefly explain the cash balance approach to the problem of the value of money. (4 marks)

**QUESTION SIX**

Banking and financial crisis often occurs in all the economies world over. It may start in one country and through spill-over effect spread to other countries causing contraction in economic activities. Explain the factors that trigger financial crisis and suggest mitigating measures. (15 marks)