



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR FIRST SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

HOMA-BAY CAMPUS

AEC 313: MONEY AND BANKING

Date: 26th November, 2016

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- **Answer question ONE and any other THREE questions.**
- **Question ONE carries 25 marks while the rest carry 15 marks each**
- **Marks will be awarded for being neat, clear and use of relevant diagrams.**

QUESTION ONE

- (a) Discuss the role of money in the development of a modern economy (11marks)
- (b) Explain the functions of a money market (8marks)
- (c) What are the main features that differentiate the unorganized money market from the organized money market? (6mark)

QUESTION TWO

- (a) Explain the functions of commercial banks in the development of an economy. (8marks)
- (b) How do commercial banks create credit? What are the limits to this credit creation? (7marks)

QUESTION THREE

- (a) Discuss the reasons for holding money as was propounded by Keynes (9mark)
- (b) Explain the components of money supply in an economy and advise on the variable to be targeted in times of economic instability caused by inflation (6marks)

QUESTION FOUR

Describe the instruments of monetary policy. How do they work and what are their limitations? (15marks)

QUESTION FIVE

- (a) Explain the functions of central banks in the development of an economy (10marks)
- (b) What are the roles of commercial banks (5marks)

QUESTION SIX

Discuss the functions of International Monetary Fund. What are the criticisms of IMF action in less developed countries (LDCs) (15marks)