



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2015/2016

**FOURTH YEAR FIRST SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF ARTS IN BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

CITY CAMPUS-EVENING

AEC 416: MONETARY THEORY AND POLICY

Date: 7th December, 2015

Time: 5.30 - 7.30 pm

INSTRUCTIONS:

- Answer Question ONE in Section A Compulsory and any other TWO Questions in Section B.
- Question A carries 30 marks and Section B 20 marks each
- Do not write on a question paper



SECTION A

Q1. (a) Critically explain the following four definitions of money as provided by Professor Johnson:

- (i) Chicago traditional view (4 marks)
- (ii) Traditional school of thought (4 marks)
- (iii) Gurley and shaw school of thought (4 marks)
- (iv) Radcliff school of thought (4 marks)

(b) Describe the effects of the changes in the value of money in Kenya (6 marks)

(c) Critically discuss transactions demand for money (8 marks)

SECTION B

Q2(a) "The earliest known treaties entitled *chronicom preciosum* dealing with index numbers were written in 1707 by Bishop Fleetwood, index numbers were not used extremely before 1860. Today we employ extremely index numbers to measure changes in the prices of goods and services"

Critically examine the important factors to be borne in mind when constructing price index numbers in Kenya (12 marks)

(b) Distinguish credit money from near money (8 marks)

Q3(a) With the aid of Fisher's equation of exchange provided critically examine variables and the effect of the Quantity of money on the price level:

$$PT = MV + M^1V^1 \quad (17 \text{ marks})$$

(b) Let us suppose that velocity (v) is 10 and the total transactions (T) which is 50 remains the same, Quantity of money (m) is increased to 100.

Required

Calculate the price level (p) in the economy (3 marks)

Q4(a) "Bond price and the rate of interest are inversely related to each other in the market. The past three months banks interest rate have been on the rise and because of that different section of people have been affected differently."

In the light of this statement explain speculative demand money in Kenya (10 marks)

(b) Discuss in detail the factors that influence or determine the supply of money in an economy (10 marks)

Q5(a) Discuss monetary, fiscal and non-monetary measures to be adopted by the government of Kenya in order to control the rising of inflation in Kenya (20 marks)