



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF ARTS IN ECONOMICS WITH
INFORMATION TECHNOLOGY**

CITY CAMPUS – REGULAR

AEC 416: MONETARY THEORY AND POLICY

Date: 13th June, 2017

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question one carries 30 marks and the rest 20 marks each.
- Do not write on the question paper.



SECTION A

Q1(a) Explain the meaning of monetary (3 marks)

(b) By citing relevant examples, explain how the value of money depending on the price level in Kenya (10 marks)

(c) Write notes on the following Two (2) main schools as provided by Professor Johnson:

(i) Radcliff view (5 marks)

(ii) Gurley and Shaw view (5 marks)

(d) Differentiate token money from standard money (17 marks)

SECTION B

Q2. Critically discuss the speculative demand for money and show how money is trapped in the economy (2 marks)

Q3(a) Describe the variable in the model of high powered money that is provided and show how Commercial Bank required reserves depend on the deposits in the banking industry:

$$H=C+RR+ER \quad (14 \text{ marks})$$

Q4(a) Today, we employ index numbers not only to measure changes in the prices of goods and service but also to measure the changes in production. In the light of this statement discuss the most important points to be considered in the construction of price index numbers in Kenya (14 marks)

(b) Weighted price index is more reliable and accurate in the product market than a simple index number. Table 1.1 shows the construction of a weighted price index number

Commodities	Base year 2002		Current year 2012	
	Price (P_0)	Weighted (N)	Price (P_0)	Weighted (N)
Wheat	200	7	500	4
Rice	300	5	600	2
Cloth	600	2	700	3
Sugar	100	3	250	4
Bluedband	200	1	300	2
Fuel	100	2	252	3

Required

Calculate

- (i) Value of the base year 2002 (2 marks)
- (ii) Value of the current year 2012 (2 marks)
- (iii) Weighted index of 2012 (2 marks)
- Q5(a) Discuss the determinants of money supply in Kenya (10 marks)
- (b) Explain the role of International monetary fund (I.M.F)
To developing Counties (10 marks)