

**UNIVERSITY OF KABIANGA**

**UNIVERSITY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER EXAMINATION**

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

**COURSE CODE: ECO 421**

**COURSE TITLE: MONETARY THEORY AND POLICY**

**DATE: 20TH APRIL, 2015**

**TIME: 9.00 A.M- 12.00 P.M**

**INSTRUCTIONS TO CANDIDATES:**

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

**QUESTION ONE**

1. Distinguish between money and near money assets. (2 marks)
2. Critically examine Fisher’s quantity theory of money. (5 marks)
3. Briefly explain **five** functions of money. (5 marks)
4. Discuss **five** essential functions of Central Bank. (5 marks)
5. What is meant by monetary revolution? Explain its main features. (5 marks)
6. Critically discuss the effectiveness of monetary policy in controlling inflation. (marks)

**QUESTION TWO**

1. Distinguish between inside and outside money. (4 marks)
2. Give the similarities and dissimilarities of quantity theory of money and Cambridge cash balance theory. (11 marks)

**QUESTION THREE**

1. How has Keynes correlated money and rate of interest on the one hand and rate of interest, employment and price on the other hand? (8 marks)
2. Explain the contribution of Milton Friedman to the quantity theory of money. (7 marks)

**QUESTION FOUR**

1. Explain the various components of the money supply. (6 marks)
2. How do banks create credit? What are the limitations on the power of the banks to create credit. (9 marks)

**QUESTION FIVE**

1. Critically examine the main features of the monetarists revolutions. (10 marks)
2. What are motives of holding cash balances according to Keynes? Give the modifications made by modern economists. (5 marks)

**QUESTION SIX**

1. Explain the Gurley-Shaw view about the liquidity theory of money. (7 marks)
2. Compare the classical and the Keynesian theorists of the rate of interest. (8 marks)