



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF MASTER OF ARTS IN ECONOMICS

CITY CAMPUS

AEC 819: MONETARY THEORY AND PRACTICE

Date: 3rd December, 2016

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer ANY FOUR question.
- All questions carry equal marks
- Do not write on a question paper.



Q1(a) "Money performs a number of primary, secondary, contingent and other functions which not only remove the difficulties of barter but also oils the wheels of trade and industry in the present day world"

Critically discuss the theoretical and empirical definitions of money as provided by the four schools of thought of Professor Johnson. (12 marks)

(b) Distinguish credit money from money of account (3 marks)

Q2(a) Write notes on the following types of inflation:

(i) Galloping inflation (3 marks)

(ii) Hyper inflation (3 marks)

(b) Discuss three factors to be considered for inflation to be called considerable rate of inflation in Kenya (3 marks)

(c) A weighted price index is more reliable and accurate in the Market than simple index number.

Table 1.1 shows the construction of a weighted price index number

Commodity	BASE YEAR 2003		CURRENT YEAR 2013	
	Price (P_0)	Weight (w)	Price P_1	Weighted (w)
Wheat	2.5	6	5	4
Rice	10.5	1	18.5	6
Cloth	11.0	3	4.5	7
Sugar	20.0	4	60.0	4
Blue band	21.0	5	70.0	3
Fuel	89.0	6	110.0	1

Required

Calculate:

- (i) Value of the base year (2 marks)
- (ii) Value of the current year (2 marks)
- (iii) Weighted index of 2013 (2 marks)
- Q3 “The demand for money under speculative motives is a function of the current rate of interest, increasing as the rate interest falls and decreasing as the interest rate rises”
- Critically discuss speculative demand for money and also show how the market rate of interest decreases to the critical minimum level in the economy of Kenya (15 marks)
- Q4. “The level of employment is accompanied by effective demand which is determined by aggregate demand price and aggregate supply price (Keynes)” (15 marks)
- In the light of this statement explain why Keynesian theory of Money and prices is considered superior to Fisher’s Quantity Theory of money (15 marks)
- Q5.(a) Explain how the value of money in Kenya depends on the price level. (5 marks)
- (b) Critically examine the determinants of money supply (10 marks)
- Q6. Critically explain the variable in Friedman’s Quantity theory of money and show demand for money by the ultimate wealth holders in Kenya (15 marks)