



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

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

MAIN CAMPUS

AEC 416: MONETARY THEORY AND POLICY

Date: 3rd May, 2016

Time: 11.00 - 1.00 pm

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks. Other questions carry 20 marks.
- Marks will be awarded for being neat, clear and use of relevant illustrations.

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SECTION A

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- Q1.(a) Explain the meaning of money according to Professor Coulborn. (3 marks)
- (b) Critically discuss speculative demand for money and with the help of a graph show how money is trapped in the economy. (4 marks)
- (c) Differentiate money of account from near money. (7 marks)

SECTION B

- Q2.(a) Discuss the advantages and disadvantages of a monetary Standard that is used in Kenya. (16 marks)
- (b) Distinguish between representative paper money from convertible paper money. (4 marks)
- Q3.(a) Explain the meaning of monetary policy. (3 marks)
- (b) Discuss five (5) objectives of monetary policy in Kenya. (17 marks)
- Q4. With the help of Fisher's Equation of exchange that is provided, critically explain the variables and the effect of the Quantity of Money on the price levels in Kenya.
- $$PT = Mv + M^1v^1$$
- (20 marks)
- Q5(a) By the use of IS-LM model explain how product market and money market reach their equilibrium simultaneously. (16 marks)
- (b) Write short notes on open market operations (OMO). (4 marks)