



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

**FOURTH YEAR SECOND SEMESTER EXAMINATIONS FOR
THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

CITY CAMPUS - REGULAR

AEC 416: MONETARY THEORY AND POLICY

Date: 22nd April 2016

Time: 9.00 - 11.00 am

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks. Other questions carry 20 marks.



SECTION A

- Q1.(a) Explain the meaning of monetary? (3marks)
- (b) Critically explain how the value of money ($1/p$) depends on the price level. (8 marks)
- (c) Define monetary standard according to Kent and explain three (3) types of monetary standards. (19 marks)

SECTION B

- Q2.(a) By the use of $1/p=f(m)$ describe the inverse relationship that exist between the Quantity of Money and the Value of Money. (10 marks)
- (b) Explain five (5) factors that are assumed to be constant in Fisher's equation of exchange. (10 marks)
- Q3.(a) Critically examine precautionary demand for Money in Kenya. (8 marks)
- (b) Explain three determinants that influence currency ratio in Kenya (9 marks)
- (c) Describe the variables that are provided in the equation
- $$M=D + C$$
- (3 marks)
- Q4.(a) Differentiate convertible paper money from fiat money (6 marks)
- (b) Write short notes on the following:
- (i) Minimum cash reserve ratio (7 marks)
- (ii) The level of bank reserves (7 marks)
- Q5(a) Discuss the causes of inflation. (14 marks)
- (b) With the help of investment and interest rate function, explain the relationship that exist between investment and interest rate. (6 marks)