



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE
DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL
ECONOMICS, AGRIBUSINESS MANAGMENT WITH
INFORMATION TECHNOLOGY**

MAIN CAMPUS

AEG 313: MONEY AND BANKING

Date: 16th June, 2017

Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer ALL Questions in section A and any other TWO in section B



SECTION A: 30 MARKS

1. The following information relates to country X for the period 2015 – 2016.

Year	2015	2016 (Percentage increase)
Money supply (Ksh)	940,000,000	2.5%
Prices (Ksh)	100	0.6%
Aggregate output (Tons)	47,000,000	2.8%

Required:

- (a) Calculate the money velocity for the year 2016. (4 Marks)
- (b) What is the real money balances for the year 2016? (3 Marks)
- (c) Assume a money velocity of 10 for 2016; calculate the quantity of money demanded for the year 2016. (3 Marks)

2. Wadhii Bank Ltd is a newly registered bank in Kenya and has begun its operations in Kisumu City. The Central Bank of Kenya has reported that initial deposit into the new bank was Ksh200,000 and advised it to maintain 25% cash reserves.

Required:

- (a) What would be Wadhii Bank Ltd's money created in the 5th round of money transactions. (3 Marks)
- (b) Assume that due to cashier's error, a customer was given Ksh 50,000 excess and that the money is lost. Calculate the effect of this error on the transaction deposit. (3 Marks)

3. Explain five (5) dynamic roles of money. (5 Marks)
4. Explain four (4) types of inflation on the basis of inducement. (4 Marks)
5. List the stages of the evolution of money (5 Marks)

SECTION B: 40 MARKS

6. (a) You are given the following information about the commodity and Money markets of a closed economy without government intervention.

The commodity market

Consumption function: $C = 50 + 2/5 Y$

Investment function: $I = 790 - 21r$

The Money Market

Precautionary and Transactions demand for money: $M_{DT} = 1/6 Y$

Speculative demand for money: $M_{DS} = 1200 - 18r$

Money supply: $M_S = 1250$

Required:

Determine the equilibrium levels of income and interest rate for this economy.

(8 Marks)

(b) The Central bank of Kenya requires all commercial banks to maintain a required reserve ratio of 25%. A researcher found that in 2015, Kenya had excess reserves of Ksh 0.6 billion, currency in circulation Ksh 300 billion and deposits Ksh 900 billion.

Required:

Calculate the money supply.

(8 Marks)

(c) Explain the four (4) players in the money supply process.

(4 marks)

7. (a) The balance sheet of Prime Bank Ltd as at 31/12/2016 is as shown below:

Assets (Ksh Billions)		Liabilities (Ksh Billions)	
Reserves	10	Deposits	100
Loans	90	Bank capital	10
Securities	10		

Additional information;

- Required reserve ratio is 10% of deposits,
 - Minimum securities is Ksh 2 Billion,
 - Net profit Ksh 150 Billion.
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Required:

- i) If Ksh 20 Billion is withdrawn, how should the bank management correct the anomaly through loan reduction and sell of securities? (6 marks)
 - ii) Calculate the Prime Bank Ltd's Return On Equity based on (i) above. (4 marks)
- (b) Ms. Jemeli is contemplating obtaining a 2 hour loan of Ksh 200,000. She has noted the following exchange rates:

Equity Bank	Buy (Ksh / \$)	104.00
	Sell (Ksh / \$)	104.35
Barclays Bank	Buy (Euro / \$)	1.58
	Sell (Euro / \$)	1.62
Family Bank	Buy (Ksh / Euro)	110.20
	Sell (Ksh / Euro)	110.60

Required:

- Should Ms. Jemeli go for the loan? (10 marks)
8. (a) Discuss the goals of monetary policy. (10 marks)
- (b) Explain the criticisms of Fisher's Quantity Theory. (10 marks)
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