



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE

**BFI 4302: MONETARY THEORY AND PRACTICE**

SUPPLEMENTARY/SPECIAL EXAMINATIONS

**SERIES: OCTOBER 2014**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Two printed pages***

---

**QUESTION 1 (Compulsory)**

- a) “Money has been described as a kind of lubricant which greatly increases the efficiency of economic mechanism”. Discuss. **(10 marks)**
- b) “Changes in the shape of the term structure of interest (the yield curve) have an impact on portfolio returns by making some bonds relatively more or less valuable to other bonds”. Assess the relevant of this statement to the **THREE** theories of term structure of interest rates. **(10 marks)**
- c) Clearly, outline the various functions of the Central Bank in the Kenyan economy. **(10 marks)**

## QUESTION 2

“Monetary policy is one of tools which governments use to achieve their economic objectives”. Discuss the various tools of monetary transmission that monetary authorities employ to achieve economic objectives. **(20 marks)**

## QUESTION 3

- a) Define inflation and discuss the various causes/types of inflation in a given economy. **(10 marks)**
- b) Explain **THREE** motives of holding money according to John Maynard Keynes. **(10 marks)**

## QUESTION 4

Briefly, explain each of the following concepts or theories:

- a) Liquidity preference theory. **(5 marks)**
- b) Domestic debt management. **(5 marks)**
- c) Prudential controls. **(5 marks)**
- d) Economic controls. **(5 marks)**

## QUESTION 5

- a) Examine the economic and non-economic defects of money. **(10 marks)**
- b) Clearly outline the challenges of barter economies. **(10 marks)**