

TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTS AND FINANCE

UNIT CODE: BFI 4302 UNIT TITLE: MONETARY THEORY AND PRACTICE

SERIES: FEB/MAY

TERM PAPER ONE

TIME: 2 HOURS

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY TWO QUESTIONS.

**QUESTION 1**

- a) Origins of monetary theory lie in Classical Economics, starting with the works of Adam Smith (1723–1790) Discuss this statement in respect to :-
  - i) Say's Law—deals with interest rates, employment and production (10Marks)
  - ii) Quantity Theory of Money—examines the role of money in the economy(10Marks)
- b) Discuss the Keynes Criticisms against Classical Theory (10Marks)

**QUESTION 2**

- a) Discuss the debate between the economist Reverend Thomas Malthus (1766–1834) and the classical economists. (10Marks)
- b) With the help of graphs explain the classical Interest rate theory (10Marks)

**QUESTION 3**

- a) Compare between the Monetarists and New Classicists (10Marks)
- b) Discuss the Rational Expectation Theory (10Marks)

#### **QUESTION 4**

- a) Discuss the roles played by Central bank in the Development of Kenya.(10Marks)
- b) As the advisor to the government, the Central Bank of Kenya must be able to give advice on a number of financial issues. Explain his statement( 10Marks)

#### **QUESTION 5**

- a) Discuss factors that affect the Rate of Exchange of a Country's Currency. (10Marks)
- b) Write brief notes on the following terms:-
  - i) Fixed Exchange Rates and its advantages (5Marks)
  - ii) Floating Rates and its dangers on the economy (5Marks)