TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
BCOM

BFI 4302: MONETARY THEORY AND PRACTICE

 END OF SEMESTER EXAMINATION
SERIES: AUGUST 2019
TIME: 2HOURS
DATE: 16Aug2019

Instructions to Candidates
You should have the following for this examination
-Answer Booklet, examination pass and student ID
This paper consists of **FIVE** questions. Attemptquestion ONE (Compulsory) and any other TWO questions.
Do not write on the question paper.

QUESTION One

a) Why does Friedman's view of the demand for money suggest that velocity is predictable, whereas Keynes view suggests the opposite? **(10Marks)**

b) Discuss how government budget can be used as an instrument of economic policy **(10Marks)**

c) Briefly discuss the various tools that the Central Bank of Kenya can use to influence the flow of money and credit in Kenya in order to achieve government economic objectives. **(10Marks)**

QUESTION Two

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 **(5Marks)**

ii) Quantity Theory of Money—examines the role of money in the economy **(5Marks)**

b) Briefly discuss the Phillips Curves and its critism **(10Marks)**

QUESTION Three

a) The inadequacies of Trade by Barter as an Exchange Mechanism gave birth to money. Name and explain these inadequacies. **(10Marks)**

b) Explain in details, the reason why an individual may decide to hold part of his money wealth as money balances pointing out the factors that can influence the amount he decides to hold. **(10Marks)**

QUESTION Four

a) What are your suggestions for control of inflation in Kenya today? **(10Marks)**

b) What problems are created in the economy by inflation? **(10Marks)**

QUESTION Five

Discuss Deflation under the following headings.

(i)   Meaning/Definitions   **(4Marks)**
(ii)   Causes   **(4Marks)**
(iii) Effects   **(6Marks)**
(iv)   Control   **(6Marks)**