TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

**UNIVERSITY EXAMINATION FOR:**

**BACHELOR OF COMMERCE**

**UNIT TITLE: MONETARY THEORY AND PRACTICE**

**UNIT CODE: BFI 4302**

END OF SEMESTER EXAMINATION

SUPPLEMENTARY PAPER

**SERIES:** APRIL 2025

**TIME:** 2HOURS

**DATE: JULY 2025**

**Instructions to Candidates**

You should have the following for this examination

*-Answer Booklet, examination pass and student ID*

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

**Do not write on the question paper.**

**QUESTION One**

**Mini Case Study**

**Weakening Kenyan Shilling pushes up Kenyan's debt Sh 500 bn**
*pmburu@ke.nationmedia.com*

Kenya's depreciating currency cost the Country nearly half a trillion on the external public debt burden alone, eroding the government's effort to pay external lenders. The shilling which continues to depreciate presents a challenge to the economy mainly in servicing external debts and importation of goods by businesses, devalued by 9.3 percent from 107.85 units by end of June 22021 to 117.83 by June 30, 2022.

The increase in the public debt is attributed to external loan disbursements, exchange rate fluctuation, and the uptake of domestic debt during the period, "Treasury stated in 2021/22 last quarterly budget and economic review report. The increase in the external debt burden was despite the government's spending to service loans from other countries, multilateral lenders, and foreign commercial banks. Between July 1, 2021, and June 30, 2022, Treasury reported that taxpayers paid a total of shs 305.3 billion to external lenders. This shows the full impact of the depreciated currency on the external debt burden in the last financial year alone totaled Sh sh461 billion, or at least 112 percent of the country's 2021/22 budget.

**You are required to answer the following questions**

a) What is Public debt? **(3Marks)**

b) List down factors that can cause a currency to depreciate? **(6Marks)**

c) what is the effect of the depreciating shilling to the external debt? **(6marks)**

d) Discuss how the government can contain the expansion Public debt, **(7marks)**

e) What measures can be put in place to contain the public debt? **(8marks)**

**QUESTION Two**

a) Using the IS-LM model, explain how money supply fiscal policy promotes economic growth in developing economies. **(10marks)**

b) Describe the role of money in economic development of the developing countries. **(10marks)**

**QUESTION Three**

a) Milton Friedman states, "Money is all that matters to nominal income." How is this statement built into the aggregate demand curve in the monetarist framework? **(10Maraks)**

b) Profit-maximizing behavior on the part of firms explains why the aggregate supply curve is upward sloping." Is this statement true, false, or uncertain? Explain your answer. **(10Marks)**

**QUESTION Four**

a) Explain the role of the central bank of Kenya. **(10marks)**

**b)** Explain with the aid of graphs, the effects of money supply on aggregate demand

**(10marks)**

**QUESTION Five**

Presently, in Kenya, the Central Bank carries out the technical work of formulating and executing the monetary policy. The central Bank therefore, tries to ensure that the level of credit creation in the economy does not impose excessive strains on the available resources while at the same time, it ensures that monetary policy provides a general environment in which savings can be accumulated.

In reference to the above statement explain:

**a)** Objectives of Monetary Policy **(10marks)**

**b)** The monetary policy instruments **(10marks)**