TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of ACCOUNTING & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BFI 4302MONETARY THEORY AND PRACTICE

END OF SEMESTER EXAMINATION

PAPER ONE

SERIES: APRIL ,2025

TIME: 2HOURS

DATE:15Apr2025

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

"Money is not, properly speaking, one of the subjects of commerce, but only the instrument which men have agreed upon to facilitate exchange of one commodity for another. It is none of the wheels of trade: It is the oil which renders the motion of the wheels more smooth and easy. If we consider any one kingdom by itself, it is evident that the greater or less plenty of money is of no consequence." (David Hume, "Of Money", 1752)

a) Discuss the above statement in respect to the monetary policy based on the supply side of the money supply as advocated by Fried man. **(10Marks)**

b) Discuss the characteristics of money that helps to facilitate exchange of one commodity for another. **(10Marks)**

c) Compare and contrast the Fiscal and monetary policies as advocated by Keynes and Friedman. **(10Marks)**

Question TWO

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

b) If the consumption function is C = 100 + 0.75Y, I = 200, and government spending is 200, what will be the equilibrium level of output? Demonstrate your answer with a Keynesian cross diagram. What happens to aggregate output if government spending rises by 100? **(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? **(10Marks)**

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) Differentiate between Full employment and Economic growth as the objective of monetary policy. **(10Marks)**

b) Monetary policy is the back-borne of a good economy. Discuss. **(10Marks)**

Question FIVE

a) Milton Friedman once suggested that Federal Reserve discount lending should be abolished. Predict what would happen to the money supply if Friedman's suggestion were put into practice. **(10Marks)**

b) The money supply M has been growing at 10% per year, and nominal GDP PY has been growing at 20% per year. The data are as follows (in billions of dollars):

	2021	**2023**	**2024**
M	100	110	121

PY	1,000	1,200	1,440

Calculate the velocity in each year. At what rate is velocity growing? **(10Marks)**

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