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 4203

END OF SEMESTER EXAMINATION

PAPER ONE

SERIES: AUGUST 2024

TIME: 2HOURS

DATE: AUGUST 2024

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

a) Examine the quantity theory of money. Does it offer an adequate explanation of inflation? **(10Marks)**

b) Given the structural equation of an Open economy as:

Y = C+I+G+(x-m)

C = Kh50m +0.8yd

Yd. = Y – T

Where:

T = Khs 50m

I = Kh40m

G = Kh52m

X = Kh32m

M= Kh37m

i. What is the equilibrium level of National income? **(5Marks)**

ii. If the full employment level of income is Khs 500 M, what change in movement is required to restore equilibrium at the full employment level? **(10Marks)**

c) Derive savings functions. **(5Marks)**

QUESTION Two

a) Discuss fully the factors that inhibit rapid Economic Development in Developing Countries. **(10Marks)**

b) Explain the role of fiscal policy in developing countries. **(10Marks)**

QUESTION Three

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

b) Identify and discuss the various stages the Central Bank of Kenya (CBK) goes through in the process of formulating its annual monetary policy circular. (**10Marks)**

QUESTION Four

a) "If you control the money supply you control the economy." Comment. (**10Marks)**

b) Explain the monetary steps that should be taken to induce conditions of full employment. **(10 Marks)**

QUESTION Five

a) Why is public expenditure continuously increasing in most of the developing countries? **(10Marks**)

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