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: AUGUST 2024

TIME: 2HOURS

DATE: NOVEMBER 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). Define the following terms

i) Default or credit Risk. (2marks)

ii) Liquidity Risk (2marks)

iii) Debt Covenants (3marks)

iv) Term to maturity (2marks)

b). Given the following data about the monetary sector of the economy.

Md = 0.4Y – 80i

Ms = 1200

Where Md is demand for money

Ms is the supply of money

Y is the level of income

Required: Determine the equation of the LM curve. (6marks)

c). Explain how the following factors influence the interest rate level

i. Central bank monetary policy (3marks)

ii. Government fiscal policy (3marks)

iii. The level of business activities (3marks)

d). Construct a consumer price index number from the table below. (6marks)

Group	**Index for 2015**	**Expenditure**
1. Food	550	46%
2. Clothing	215	10%
3. Fuel and Lighting	220	7%
4. House Rent	150	12%
5. Miscellaneous	275	25%

QUESTION Two

a) Does the Phillips Curve relationship hold for modern data in a modern economy?

(10Marks)

b) Why is unemployment an important economic variable? **(10Marks)**

QUESTION Three

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

b) Explain the effect of Money on National Income. **(10Marks)**

QUESTION Four

a) List ten (10) of the functions of the Central Bank of Kenya. **(10Marks)**

b) What is a financial system? **(4Marks)**

c) Discuss the various categories of institutions that comprise the structure of the Kenyan Financial System. **(6Marks)**

QUESTION Five

a) What comprises the supply of money in Kenya? **(5Marks)**

b) What are the problems in defining the money supply? **(5Marks)**

c) Discuss the factors that help to determine the supply of money in Kenya (**10Marks)**

TUM is ISO 9001:2015 Certified