

210



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

SECOND YEAR FIRST SEMESTER EXAMINATIONS

**FOR
BSC ECONOMICS AND BSC AGRIBUSINESS**

COURSE CODE: ECO 209

COURSE TITLE: MONEY AND BANKING

DATE: TUESDAY 13/12/2022

TIME: 12:00 -14:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION ONE AND ANY OTHER TWO

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over

QUESTION ONE (COMPULSORY)

- a) Clearly distinguish between the following set of terms within the framework of money
- i) Endogenous and Exogenous determinants of supply of money
 - ii) Convertible paper money and inconvertible paper money.
 - iii) Bank rate policy and open market operations
 - iv) Devaluation and depreciation of currency (2 marks each=8 marks)
- b) Explain the factors that influence precautionary demand for money which arises out of uncertainties that has to be handled in the economy (6 Marks)
- c) How do banks reduce information cost that minimize moral hazard and reduce adverse selection? (6 Marks)
- d) What do you understand by the term credit creation? (5 Marks)
- e) What is a policy mix and how does it work in the economy. (5 Marks)

QUESTION TWO

- a) Briefly explain the dynamic role of money has on various groups of people and in the economy. (8 Marks)
- b) Money, which economists regard as an extremely valuable social instrument in promoting wealth and welfare has some inherent defects/draw backs that make it often times misbehave and tries to act like a master, therefore "Money is a good master but a bad servant." Discuss (8 Marks)
- c) What is the relationship between the amount of money in circulation and inflation. (4 Marks)

QUESTION THREE

- a) In the underdeveloped countries, there exist some special characteristics which render the nature and determinants of demand for money different from that in the developed countries. Discuss these special characteristics. (10 Marks).
- b). Explain the factors affecting transactions demand for money. (10 Marks).

QUESTION FOUR

- a) The financial sector provides major functions that are crucial for the survival and efficient operation of any given economy. Explain these functions in detail. (10 Marks)
- b) The money market is a market for short term credit and liquid financial instruments. How does money market differ from capital market? (4 Marks)
- iii) Which are the main classifications of financial markets? (6 Marks)

QUESTION FIVE

- a) Illustrate the consequences of a sale of government bonds and bills by the central bank when an economy is experiencing a liquidity trap. (8 Marks)
- b) Why do you think commercial banking system in Kenya may be termed as a monopolistic competitive market? (6 Marks)
- c) Briefly Explain the main sources of funds for the world bank. (6 Marks)