MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM MANAGEMENT

DEPARTMENT OF ECONOMICS

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 310: ECONOMICS OF MONEY AND BANKING

DATE: **TIME:**

INSTRUCTIONS:

Answer question one (Compulsory) and any other two questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Explain three functions of money. (6 marks)

b) Explain three factors that may shift the Bonds' demand curve. (6 marks)

c) Explain three functions of the Central Bank. (6 marks)

d) A monopoly bank has the following balance sheet. It is required to maintain a ratio of cash to total deposits of 10%.

Liabilities	**Ksh**	**Assets**	**Ksh**
Deposits	2,000	Cash	500
		Bills	500
		Advances	1,000
	2,000		**2,000**

Illustrate the bank's profit maximizing balance on the assumption that it grants new advances. (6 marks)

e) Explain three possible causes of inflation. (6 marks)

QUESTION TWO (20 MARKS)

a) Explain five attributes of good money. (10 marks)

b) Discuss Keynes Liquidity Preference Theory. (10 marks)

QUESTION THREE (20 MARKS)

Suppose John deposits Ksh 100,000 in KCB and Mary borrows Ksh 80,000 from KCB to buy a Refrigerator from Nakumat Mega. The required reserve ratio for all banks set by Central Bank is 20%. Nakumat Mega then deposits the money from Mary in Coop Bank. Assume that there are no currency drains.

a) Draw the Balance Sheets for the two banks. (6 marks)

b) What are the levels of required reserves that KCB and Coop Bank shall hold after the deposits by John and Nakumat Mega? (4 marks)

c) Suppose Nakumat Mega deposited the Ksh 80,000 from Mary to Coop Bank in cash and Coop Bank has a policy that it will hold 15% of total deposits in cash. After submitting its required reserves to Central Bank, how would Coop Bank maintain its 15% cash ratio? Draw the Balance Sheet. (8 marks)

d) Calculate the money multiplier in question (c) above? (2 marks)

QUESTION FOUR (20 MARKS)

a) Discuss the Cambridge Cash Balance Theory of Money. (10 marks)

b) While using graphs discuss determination of equilibrium interest rates in the bonds market (10 marks)

QUESTION FIVE (20 MARKS)

a) Discuss Irvin Fisher's Quantity Theory of Money. (10 marks)

b) Discuss five types of non-bank financial intermediaries. (10 marks)