



SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

UNIT CODE: BAF 300: MONETARY THEORY AND PRACTICE

AUGUST-DECEMBER 2018 END SEMESTER EXAM - 2 HOURS

Instructions: Answer question one (1)) (compulsory) and any other Two

Question one

- a) i) The regulatory authority that sets the required reserve ratio for all banks in Kenya is:
- a. The National Treasury
 - b. Central Bank of Kenya
 - c. Monetary Policy Committee
 - d. The National Treasury Cabinet Secretary
- ii. Money is
- a. Anything generally accepted in payment for goods
 - b. The income earned by a person
 - c. The paper currency for a country
 - d. Anything generally accepted in payment for goods and services and repayment of debt
- iii. Currency includes
- a. Paper money and coins
 - b. Paper Money, coins and cheques
 - c. Paper Money, Coins and Savings accounts
 - d. Paper Money, Coins, Cheques and Savings Accounts
- iv. When compared to an exchange system that relies on money, disadvantages of barter system include
- a. Lowering transaction costs over time
 - b. Reducing the transaction time over time
 - c. Finding a specialist who can connect the parties to exchange
 - d. Relying on double coincidence of wants
- v. The national payment system is
- a. The method in which unions use to bargain for high salaries

- b. The method of conducting financial transactions in an economy
 - c. Operated by commercial banks
 - d. The Integrated Financial Management and Information System (IFMIS)
- vi. _____ is the narrowest measure of money supply
 - a. M0
 - b. M1
 - c. M2
 - d. M3
- vii. The Central Bank of Kenya in relation to Kenyan currency exists to
 - a. Safeguard the value of Kenya Shilling
 - b. Open accounts for commercial banks
 - c. Close poorly performing commercial banks
 - d. Withdraw currency from the market
- viii. In Kenya the responsibility of formulating monetary policy is vested with
 - a. Vision 2030 Secretariat
 - b. Kenya Revenue Authority
 - c. Monetary Policy Committee
 - d. Central Bank Research department
- ix. Which of the following is not a monetary policy transmission channel in Kenya
 - a. Interest rates
 - b. Exchange rates
 - c. Credit
 - d. Commercial Bank accounts
- x. Inflation is caused by numerous factors, both locally and internationally. Which of the following does not cause inflation
 - a. During periods of drought or excessive rain, the prices of food could increase, leading to an increase in the inflation rate.
 - b. International factors like increases or decreases in oil prices can also lead to changes in inflation reflecting movements in energy and transport costs.
 - c. Depreciation in the exchange rate against the major currencies can also cause inflation since Kenya is a net importer of goods.
 - d. Increased supply of goods in the market due to bumper harvest.

(10 Marks)

b) Customers have currently deposited Kshs. 40 million in a bank in Kenya. Calculate the required reserve and the excess reserve. **(5 marks)**

c) Differentiate between M1, M2 and M3 regarding measuring money supply **(9 marks)**

d) Explain how the monetarist transmission mechanism works. **(6 marks)**

Question two

- a) The Central Bank of Kenya has realized there is excess supply of money in the economy. State and explain what tools the Central Bank of Kenya will employ to manage the excess supply and how **(10 marks)**
- b) Are credit cards money? **(5 marks)**

Question three

- a) Why is the demand curve for money downward sloping? **(7 marks)**
- b) A bank in Kenya has received a loan application from one of her customers and the bank has written to a Credit Reference Bureau. Explain why and for what? **(8 marks)**

Question four

- a) Central Bank of Kenya Act CAP 491 states one of the banks' functions is acting as banker and advisor to, and as fiscal agent to government. Explain how this is achieved. **(10 marks)**
- b) If today you found a new institution receiving money deposits, what shall be your first thing to check and why? **(5 marks)**

Question five

- a) Explain how the Keynesian transmission mechanism works. **(12 marks)**
- b) What is the current cash reserve ratio set by the Central Bank of Kenya? **(3 marks)**