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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2024/2025ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 9th August, 2024
Time: 2.30pm –4.30pm

KFI 2303 MONETARY THEORY AND POLICY

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

The Central Bank of Kenya stands as the apex of the banking system mandated to license, supervise and regulate the banks within the banking system in the Kenyan economy. It is owned by the Government of Kenya having been established way back in 1966 through an Act of parliament. Following the promulgation of the new constitution on August 27th, 2010, the Central Bank of Kenya (CBK) is now established under Article 231 of the Constitution, 2010. Under this Article the Central Bank has the responsibility of Currency issue and circulation. The role of the Central Bank of Kenya (CBK) is anchored in Section 231 of Kenya's Constitution and in the CBK Act. The CBK is responsible for formulating monetary policy to achieve and maintain price stability, and issuing currency. The Bank also promotes financial stability through regulation, supervision and licensing of financial institutions under its mandate. It also provides oversight of the payments, clearing and settlement systems, financial stability, and fosters liquidity, solvency and proper functioning of the financial system. The CBK formulates and implements the foreign exchange policy, and manages foreign exchange reserves. It is also the banker for, adviser to, and fiscal agent of the Government.

From the above abstract;

a) Critically examine five functions of Central Bank of Kenya in relation to Currency issue and circulation. (12 marks)

b) Apart from the Central Bank of Kenya, briefly discuss three players in the money supply. (6 marks)

c) Discuss the various open market operation ways in which the CBK pursues its monetary policy. (8 marks)

d) Identify any two financial technology applications (FinTech) by the Central Bank of Kenya. (4 marks)

QUESTION TWO (20 MARKS)

a) Lord John Maynard Keynes who propounded the Keynesian theory identified three reasons that prompt people to hold money. Briefly describe the motives why individuals hold money. (12 marks)

b) Discuss four factors that influence money supply. (8 marks)

QUESTION THREE (20 MARKS)

a) Explain four weaknesses of barter trade that led to the introduction of money system. (8 marks)

b) Distinguish between the following;

   i) The contractionary monetary policy and the contractionary fiscal policy. (4 marks)

   ii) Expansionary Monetary Policy and the expansionary monetary policy. (4 marks)

   iii) Goods Market and Capital Market. (4 marks)

QUESTION FOUR (20 MARKS)

a) Discuss the functions of money. (12 marks)

b) Briefly discuss the four criticisms advanced on the validity of the assumptions of the Quantity Theory of Money. (8 marks)

QUESTION FIVE (20 MARKS)

a) Central bank signals the stance of its monetary policy by setting a target financing rate, which in turn sets a target for the overnight cash rate for very short-term interbank loans.

   i) Define the term monetary policy. (3 marks)

   ii) Briefly discuss the major monetary policy tools used by Central Bank. (9 marks)

b) Examine the various limitations of monetary policy in developing markets such as Kenya. (8 marks)