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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 8th December, 2023
Time: 11.30am –1.30pm

KFI 402 - MONEY AND BANKING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

The Financial Crisis of 2007–08, often referred to as the subprime mortgage crisis, had far-reaching implications for the global economy. It originated in the United States due to the collapse of the housing market, leading to a severe contraction of liquidity in global financial markets. The crisis had several consequences, including the failure or near-failure of major investment and commercial banks, mortgage lenders, insurance companies, and savings and loan associations. This, in turn, triggered the Great Recession (2007–09), marking the most significant economic downturn since the Great Depression. In response to the crisis, the United States enacted the American Recovery and Reinvestment Act of 2009. This multifaceted legislation employed expansionary monetary policy, facilitated bank bailouts and mergers, and aimed to stimulate economic growth. The crisis highlighted systemic issues within the financial industry and prompted substantial regulatory and legislative changes to prevent a recurrence.

Required:

- a) Reflecting on the causes of the 2007–08 financial crisis, what role did the collapse of the U.S. housing market play, and how did it contribute to the global liquidity contraction. (5 marks)
- b) Considering the aftermath of the crisis, how did the failure or near-failure of major financial institutions impact the broader economy, including investment, lending, and insurance sectors (5 marks)
- c) In response to the crisis, the United States implemented the American Recovery and Reinvestment Act of 2009. Discuss specific measures within this legislation that aimed to address the economic challenges arising from the financial crisis. (5 marks)
- d) How did the 2007–08 financial crisis compare to the Great Depression in terms of its impact on the global economy, and what lessons can be learned from both events regarding economic resilience and recovery. (5 marks)
- e) Explore the regulatory and legislative changes implemented post-crisis to prevent a recurrence. How have these changes influenced the financial industry's operations and risk management practices. (5 marks)
- f) Discuss the role of international cooperation and coordination in addressing the global ramifications of the financial crisis. What collaborative efforts were made to stabilize the international financial system and prevent a prolonged economic downturn. (5 marks)

QUESTION TWO (20 MARKS)

- a) Distinguish the following terms as used in monetary economics;
- i) Moral hazard and adverse selection (6 marks)
 - ii) Monetary policy and fiscal policy (6 marks)
- b) Describe four roles of the Central bank in attaining a country's economic stability. (8 marks)

QUESTION THREE (20 MARKS)

- a) Explain three effects of currency devaluation on the a country's economic condition (6Marks)
- b) Discuss any four likely consequences of over regulation of financial markets. (8 marks)
- c) Describe any two monetary policy tools the central bank can employ to achieve economic stability (6 marks)

QUESTION FOUR (20 MARKS)

- a) Explain any three feature of informal finance. (6 marks)
- b) Discuss four roles of financial intermediaries in a country's financial markets. (8 marks)
- c) Describe types of financial markets regulation. (6 marks)

QUESTION FIVE(20 MARKS)

- a) Suppose that in a country X, real GDP is \$10,000 billion, the velocity of money is 5, and the money stock is \$2,500 billion. What is the price level? (4 marks)
- b) Explain briefly using examples the concept of money illusion. (4 marks)
- c) Discuss the motives of holding money in the Keynesian system? (9 marks)
- d) Predict what will happen to the money supply if there is a sharp rise in the currency ratio. (3 marks)