



Kasarani Campus  
Off Thika Road  
Tel. 2042692 / 3  
P. O. Box 49274, 00100  
NAIROBI  
Westlands Campus  
Pamstech House  
Woodvale Grove  
Tel. 4442212  
Fax: 4444175

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**THIRD YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 29<sup>th</sup> July, 2022  
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)**

- a) Suppose that you have the following information about a banking system in Kenya. The money supply is \$6,000,000. Currency held by the public is \$2,000,000 and reserve deposit ratio is 0.25.  
*Required:*
- i) Calculate the Deposits (2 marks)
  - ii) Calculate the Bank Reserves (2 marks)
  - iii) Calculate the Monetary Base (2 marks)
  - iv) Calculate the Money Multiplier (2 marks)
- b) Write short notes on the following
- i) Cash reserves ratio (3 marks)
  - ii) Selective credit control (3 marks)
  - iii) Full bodied money (3 marks)
  - iv) Fiat money (3 marks)
  - v) Moral suasion (3 marks)
- c) Explain five attributes that any commodity should possess in order to serve as medium of exchange.  
(5 marks)
- d) Money is described as “hot potato” that is quickly passed from one person to another during a hyperinflation. Explain why this is the case.  
(2 marks)

## **QUESTION TWO (20 MARKS)**

- a) The money supply  $M$  has been growing at 10% per year, and nominal GDP  $PY$  has been growing at 20% per year. The data are as follows (in billions of dollars):

	2001	2002	2003
$M$	100	110	121
$PY$	1,000	1,200	1,440

- Calculate the velocity in each year. At what rate is velocity growing? (7 marks)
- b) Elaborate on five factors that determine money supply in an economy. (5 marks)
- c) Using suitable examples, discuss factors that determine the rate of interest in an economy. (8 marks)

## **QUESTION THREE (20 MARKS)**

- a) Before money system came to be, merchants depended on Barter trade system in their operations. Barter trade had been synonymous with a myriad of problems which led to merchants and business people to shift from usage of barter trade to money system. Clearly explain using examples any five problems associated with barter trade system. (10 marks)
- b) Explain giving examples the main limitations of credit creation in a developing economy, such as Kenya. (10 marks)

## **QUESTION FOUR ( 20 MARKS)**

- a) During the 1990s, Automatic Teller Machines became widely available. Describe THREE ways in which this has affected money demand. (6 marks)
- b) Explain four vitalities of Non-Banking Financial Institutions in economic growth and development process of a country. (8 marks)
- c) Explain three reasons why Keynes's analysis of the speculative demand for money is important to the view that velocity will undergo substantial fluctuations and thus cannot be treated as constant. (6 marks)

## **QUESTION FIVE (20 MARKS)**

- a) If nominal Kenya GDP in a year is estimated as \$5 trillion and the quantity of money supplied by the Central Bank is \$1 trillion, calculate the money velocity and give its meaning. Explain what happens if the money doubles to \$23 trillion. (7marks)
- b) Discuss four roles of commercial banks in the process of expansion of money supply, indicating the limitations of each process in the developing economies. (8 marks)
- c) Explain five types of money in an economy indicating their liquidity statures. (5 marks)