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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY UNIVERSITY EXAMINATIONS, 2024/2025 ACADEMIC YEAR FOURTH YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE (BUSINESS ADMINISTRATION) SPECIAL EXAMINATION KFI 402 MONEY AND BANKING

Date: 12th August, 2024 Time: 11.30am – 1.30pm

(2 Marks)

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS QUESTION ONE (30 MARKS)

a)	i)	i) In the liquidity trap, the demand for money becomes horizontal. Depict this graphically. (5 Marks)		
	ii)	Demonstrate and explain why increases in the money supply do not affect interest thus aggregate spending in the liquidity trap	(5 Marks) (5 Marks)	
h)	What i	s the yield to maturity on a bond that has a price of KShs 20 000 and pays KShs 1		
0).	annual	ly forever?	(3 Marks)	
c).	Explai	n why people hold money rather than bonds when bonds pay higher interest than	money. (3 Marks)	
d).	Differentiate between the following pairs of concept:			
	i)	Money market mutual funds (MMMFs) and Money Market Deposit Accounts (M	MDAs).	
			(4 Marks)	
	ii)	Fiat money and fiduciary money.	(4 Marks)	
e).	How is	s the Keynesian liquidity preference theory different from classical quantity theory	of money? (6 Marks)	
QUESTION TWO (20 MARKS)				
a)	Briefly	v explain, giving examples the following terms and concepts as used in money and	banking.	
	i)	Open and market operations.	(4 Marks)	
	ii)	Demand deposits.	(2 Marks)	

- iii) Token money (2 Marks)
- iv) Double coincidence of wants.

b)	Discuss with relevant examples the contribution of non-bank financial institutions in ecor growth of a country.	nomic (6 Marks)		
c)	Explain the main factors limiting credit creation.	(4 Marks)		
QUESTION THREE (20 MARKS)				
a) b)	Discuss with help of examples factors that determine the rate of interest in an economy?	(10Marks)		
<u>QUES</u>	<u>FION FOUR (20 MARKS)</u>			
a)	Using examples, discuss the two fundamental functions of money.	(6 Marks)		
b)	'Money is a curse in abnormal conditions instead of being a blessing'. Citing relevant exa discuss the drawbacks of money in relation to this statement.	mples, (6 Marks)		
c)	Explain the attributes that money should possess in order to function properly in the econ	omy. (8 Marks)		
<u>QUESTION FIVE (20 MARKS)</u>				
a).	Suppose that in a country X, real GDP is \$10,000 billion, the velocity of money is 5, and stock is \$2,500 billion. What is the price level?	the money (4Marks)		
b)	Explain briefly using examples the concept of money illusion.	(4Marks)		
c)	Discuss the motives of holding money in the Keynesian system?	(9Marks)		

d) Predict what will happen to the money supply if there is a sharp rise in the currency ratio. (3Marks)