

QUESTION ONE

- a. Identify the negative effects of inflation [4mks]
- b. Define money according to Gurley- Shaw. [2mks]
- c. Explain the primary functions of money. [4mks]
- d. Explain the monetary policy actions taken at the stage of the transmission mechanism from expenditure to demand and inflation. [10mks]
- e. With the aid of a diagram, explain the IS-LM model. [10mks]

QUESTION TWO

- a. Define money supply . [2mks]
- b. Explain the measures of money supply [8mks]
- c. Kenya has lately been experiencing high inflation rates. You have been appointed to a committee that is to draft a policy document concerning the remedies of high inflation rates. Explain the policies that your committee will adopt. [10mks]

QUESTION THREE

- a. The first stage of the transmission mechanism is the financial system channel. Explain the monetary policy actions for this stage of monetary policy transmission. [12mks]
- b. Explain the role of the central bank in an economy. [8mks]

QUESTION FOUR

- a. Explain the determinants of money supply. [8mks]
- b. Using the IS-LM-BP model, explain how an expansionary monetary and fiscal policy affect an economy where there is perfect capital mobility. [12mks]

QUESTION FIVE

- a. Explain the quantity theory of money. [8mks]
- b. Identify and explain the determinants of the quantity of money in an economy.

[12mks]