



JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION
FOR DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
4th YEAR 1ST SEMESTER 2016/2017 ACADEMIC YEAR
BUSIA LEARNING CENTRE

COURSE CODE: AEC 416

COURSE TITLE: MONETARY THEORY AND POLICY

EXAM VENUE:---

STREAM: (BBA – FINANCE)

DATE: 21/12/16

EXAM SESSION: 2.00 – 4.00PM

TIME : 2.00 HOURS

Instructions:

- 1. Answer question 1 (compulsory) and ANY other 2 questions.**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE (COMPULSORY):

- a) Explain the possible causes of a rise in the rate of inflation in an economy(6 marks)
- b) Evaluate the possible impact on economic performance that may result from a government decision to bring inflation under control (8 marks)
- c) Explain how the rate of inflation might be measured and the factors which might make accurate measurement difficult (8 marks)
- d) Evaluate the extent to which an individual government can influence the rate of inflation in its economy. (8 marks)

QUESTION TWO

During the global financial crisis of 2008-2009, there was a fall in consumer spending in many countries.

- a) Explain the factors which might be responsible for causing consumer spending to fall (10 marks)
- b) Evaluate the possible consequences of falling consumer spending for a country's macroeconomic performance (10 marks)

QUESTION THREE:

- a) Distinguish between the nominal rate of interest and the real rate of interest (4 marks)
- b) Explain the possible effects of an increase in interest rates in an economy (8 marks)
- c) Explain how a government can use monetary policy to expand aggregate demand (8 marks)

QUESTION FOUR:

- a) Describe the role of the Central Bank of Kenya (10 marks)
- b) Describe the following terms:
 - i) Tight (contractionary) Monetary policy (2 marks)
 - ii) Loose (Expansionary) Monetary policy (2 marks)
 - iii) Fiscal policy (3 marks)
 - iv) The process of quantitative easing (3 marks)