JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

Kisii Learning Centre

UNIVERSITY EXAMINATIONS   MAY-AUGUST 2014

AEC 416: MONETARY THEORY AND POLICY

BBA YEAR 4 SEM 2

DURATION: 2 HOURS

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY TWO

Q1a) Monetary policy can be used to combat inflation. Explain (8 marks**)**

b) Explain the effect of inflation on the functions of money (6 marks)

c) Define monetary theory and its objectives (8 marks)

d) Discuss the classical quantity theory of money (8 marks)

Q2a) using the IS-LM model, discuss the relationship between money and national income (10 marks)

b) Assume that we have the following functional relationships:

$C=304+0.8Y$

$I=400+300i$

$Ms=700$

$MDT=0.6Y$

$MDS=348-500i$

Calculate the equilibrium rate of interest (10 marks)

Q3a) Write short notes on the empirical and theoretical definition of money (6 marks

b) There exists a relationship between money and growth in the macro economy. Discuss (6 marks)

c) Explain the role of monetary authorities in controlling the money stock (8marks

Q4a) Explain the Keynesian view on interest rates and money supply (8 marks)

b) Explain the objectives of Central Bank (5 marks)

c) There exists a relationship between monetary policy and the transmission mechanism. Explain (7 marks)

Q5a) Discuss the determinants of money supply (10 marks)

b) Discuss the instruments of monetary policy (10 marks)