



OFFICE OF THE DEPUTY VICE CHANCELLOR
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2023 /2024 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF EDUCATION ARTS

COURSE CODE: EDB 301

COURSE TITLE: MONEY AND BANKING PRACTICE

DATE: 15TH DECEMBER 2023

TIME: 9.00 TO 12.00 P.M

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

MAIN EXAM**EDB 301: MONEY AND BANKING PRACTICE****STREAM: BED (Arts)****DURATION: 3 Hours****INSTRUCTIONS TO CANDIDATES**

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

QUESTION ONE

- (a) Describe the following attributes of money;
 - (i) Liquidity (2 marks)
 - (ii) Divisibility (2 marks)
- (b) The value for money is related to the price level since goods and services are purchased with a money unit at given prices. In line with this, explain the effect of changes in value of money as a result of rising prices to the following parties;
 - (i) Debtors (2 marks)
 - (ii) Fixed income earners (2 marks)
- (c) How does Irving Fisher's quantity theory of money vary from the Cambridge equation? (4 marks)
- (d) Credit money as one of constitutes of money comes in various forms. Support this statement. (6 marks)
- (e) Analyze the Keynesian model's assumptions which use active government policy to manage aggregate demand to address or prevent economic recession. (6 marks)
- (f) Justify the uses of interest rates in the Kenya's economy. (6 marks)

QUESTION TWO

- (a) In Kenya, the value of money varies and that is inversely related to the changes in the price level. As an one of the experts, explain the price indices that are handy in measuring the changes in the general level of prices (10 marks)
- (b) The following information relates to prices of the main commodities;

Commodity	M	N	O	P	Q
Price (Year 2021)	80	65	93	102	75
Price (Year 2022)	94	72	109	112	86

Required; Construct price index using;

- (i) Simple aggregative method (3 marks)
- (ii) Simple average of price relatives method (7 marks)

QUESTION THREE

- (a) Using the Kenyan context, justify the need for commercial banks (10 marks)
- (b) Break down the key ethics stipulated for the country to have sound banking industry (10 marks)

QUESTION FOUR

- (a) Write brief notes on the following terms as used in money supply;

- (i) Required reserve ratio (2 marks)
- (ii) High powered money (2 marks)
- (b) The money demand curve is vital in explaining the nexus between quantity of money demanded and the interest rate in an economy. Elaborate this statement further by:
 - (i) Justifying the downward sloping nature of the money demand curve (4 marks)
 - (ii) Explaining the common causes of shift in money demand curve as it is not static (12 marks)

QUESTION FIVE

- (a) Explain the following terms relating to money;
 - (i) Full bodied versus representative full bodied money (4 marks)
 - (ii) Convertible versus inconvertible paper money (4 marks)
- (b) Plastic money has become a necessity in Kenya today given its immense benefits. Support this statement. (12 marks)