



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

**MAIN EXAMINATION**

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**AUGUST - DECEMBER 2018 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CBF 312: MONEY, BANKING AND FINANCIAL MARKETS**

**Date: DECEMBER 2018**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) Explain what money is and its primary functions. **(10 marks)**
- b) Examine the role, functions, and funding of finance companies in a contemporary economy. **(10 marks)**
- c) Enumerate the organizations required to obtain licenses from the Capital Markets Authority to operate in Kenya. Further explain limitations on these licenses. **(10 marks)**
- Q2. a) Formulate and explain the components of the equation of exchange. State the basic premise of the quantity theory of money and illustrate the concept supposing that velocity is 5, nominal income (GDP) is initially KES5 trillion, the money supply is initially KES1 trillion and that money supply subsequently doubles to KES2 trillion. **(10 marks)**
- b) Examine how money is created in the modern economy by commercial banks. **(10 marks)**
- Q3. Examine the tenets of the liquidity preference theory of the determination of interest rates. **(20 marks)**
- Q4. a) Merchant banking is one of the activities of investment banks. Provide a detailed explanation of the merchant banking business. **(10 marks)**

- b) Financial markets may be structured as either exchanges or over-the-counter markets. Contrast the two financial markets. **(10 marks)**

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