



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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AUGUST – DECEMBER 2018 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 402: MONETARY THEORY AND PRACTICE

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) i) Give a brief analysis of the concept of development. **(5marks)**
ii) What are the major components that make money? **(5marks)**
b) Briefly discuss the theoretical and empirical definitions of money. **(10marks)**
c) Outline Keynes argument on the quantity of money in circulation that determines the demand for money in the modern economies **(10marks)**
d) Describe how money affects the operations of an economy citing the effectiveness of a monetary policy. **(10marks)**
- Q2. Outlining Fisher's equation of exchange, explain how it differs from that of Keynes. **(20marks)**
- Q3. a) Money used in an economy determines its demand and velocity of circulation. Discuss its functions in an economy. **(10marks)**
b) Outline the importance and the role of monetary policy in a developing open economy. **(10marks)**
- Q4. a) How do changes in money supply affect the economic activities of an economy? **(10marks)**

- b) When there is a change in the supply of money the value of money is affected. Discuss how the changes in the value of money can be measured. **(10marks)**
- Q5. a) To what extent is the Central Bank of Kenya able to control the money stock in the economy? **(10marks)**
- b) Briefly describe the terms below
- i) Interest rates **(5marks)**
 - ii) Transmission mechanism **(5marks)**

END