

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN
ECONOMICS**

MSEC 853: MONETARY THEORY AND PRACTICE

STREAMS: MSEC

TIME: 3 HOURS

DAY/DATE: THURSDAY 08/04/2021

8.30 A.M. – 11.30 A.M.

INSTRUCTIONS:

- **Answer question ONE and any other TWO.**
- **Do not write on this paper.**

QUESTION ONE

- (a) Explain the conditions when money is non-neutral. (10 marks)
- (b) Governments regulate the functioning and supply of money in the economy through the central bank by way of credit creation. Discuss this statement that “loans create deposits.” (7 marks)
- (c) Business cycles alter and diminish the role of central bank in regulating the fiscal monetary stability in the economy. Do you agree with this statement by the Cambridge Economists that the business cycle is purely a monetary phenomenon? (8 marks)
- (d) Many countries have been hit badly concerning the current economic crisis (COVID-2019). Many economists are trying to come up with a proper theory of money to recover the economy. Discuss giving relevant examples in Kenya how the relationship is tied to post Keynesian monetary theory and loans-deposits gap. (10 marks)

QUESTION TWO

- (a) Milton Friedman coined the concept of helicopter money as an idea for one-time activation of consumption, economic activity and improvement of economic growth. Explain this concept in relation to the current financial crisis of many developing countries. (10 marks)

- (b) As an economist discuss in depth the impact of monetary policy on the stability of financial systems in the context of analyzing the sources of global financial crisis. (10 marks)

QUESTION THREE

- (i) Many developing economies deal with balancing the exchange rate so as to induce monetary demand internally and externally. What are the conditions for a dollarized economy to issue treasury bills in dollars? (10 marks)
- (ii) Discuss the major relationship between cash deposit ratio and money multiplier. (10 marks)

QUESTION FOUR

- (i) Explain giving relevant examples the operating principles of monetary policy. (10 marks)
- (ii) Clearly explain the economic policy implications of a Keynesian and monetary theories in a depressed economy. (10 marks)
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