

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FIRST SEMESTER 2025/2026 ACADEMIC YEAR

THIRD YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE

BFIN 312/ECON 341: MONEY AND BANKING

STREAM: Y3S1 BCOM

TIME: 2 HRS

DAY: FRIDAY [8.30 A.M-10.30 A.M]

DATE: 30/01/2026

THIS QUESTION PAPER CONSISTS OF TWO (2) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.

INSTRUCTIONS:

Answer questions one (compulsory) and any other two.

QUESTION ONE

- a) Explain the functions of commercial banks in the economic development of any country. **(10marks)**
- b) Define and explain the key objectives of monetary policy in Kenya **(10 marks)**
- c) In ancient times, the global medium of exchange was compelled to shift from barter trade to the modern-day monetary system as it proved to be very unpopular. Explain the unpopularity of the barter system. **(10 marks)**

QUESTION TWO

- a) Explain the role of financial intermediaries in the economic development of a country. **(10 marks)**
- b) Inflation is a situation where the general price levels for goods and services rises, leading to a decrease in purchasing power. When inflation occurs, each unit of currency buys fewer goods and services than it did previously. Analyze the positive and negative effects of high inflation on an economy. **(10 marks)**

QUESTION THREE

- a) Critically examine the following theories of money demand;
 - i) Irving Fisher's transactions approach. **(5 Marks)**
 - ii) Keynes liquidity preference theory **(5 Marks)**
- a) Identify the tools of monetary control used by the central bank in controlling credit and explain how they are operationalized. **(10 Marks)**

QUESTION FOUR

- a) Write short notes on capital markets and discuss their importance in the money market. **(10 marks)**
- b) Examine the developments that have fueled the global financial sector's expansion. **(10 Marks)**