

## **DIAF 0126: MONEY AND BANKING**

Instructions: Answer Question ONE and Any Other TWO Questions.

### Question One

- What are the main causes of budget deficits.

(6 Marks)

- Explain why the reduction of government deficits has increasingly become an important issue in fiscal policy.

(6 Marks)

- Explain FIVE functions of money.

(6 Marks)

- Outline the major differences between quantity and Keynesian liquidity preference theories of money demand.

(6Marks)

- Differentiate between devaluation and depreciation of currency. (6 Marks)

## Question Two

- Distinguish between money, near money & money substitutes.(9Marks)
- Explain any FOUR qualities of money.

(8 Marks)

- Explain reasons for liquidity preference for money.

(2 Marks)

- What is a liquidity trap.

(1 Marks)

## Question Three

- What monetary and fiscal policies can a government adopt to reduce inflation.

(10 Marks)

- Explain the factors that may affect the effectiveness of the policies mentioned in (a) above.

(10 Marks)

#### Question Four

- Why is currency devaluation ineffective in developing countries.

(5 Marks)

Write brief notes on;

- Foreign exchange reserves.

(5 Marks)

- Balance of payment current account. (5 Marks)

- Credit multiplier. (5 Marks)

#### Question Five

- Explain the role of the Central Bank and how it may influence the performance of a country's economy.

(8Marks)

- Explain the role of commercial banks in your country.

(7 Marks)

Question six

- What are the necessary conditions for devaluation to be an effective tool of correcting a country's balance of payment deficit. (5 marks)
- In reference to international financial institutions, explain the roles of the international monetary fund and its affiliates(5 marks)
- Enumerate the roles of the monetary policy board of a countries central bank(5marks)