



KIBABII UNIVERSITY COLLEGE

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UNIVERSITY EXAMINATIONS

2012 /2013 ACADEMIC YEAR

**FOR THE DIPLOMA OF
BUSINESS MANAGEMENT**

COURSE CODE: DBF 101

COURSE TITLE: MONEY AND BANKING

DATE: 23rd August, 2013

TIME: 9.00am-12 noon

Instructions to Candidates

- Attempt three questions in total

SECTION A (COMPULSORY)

QUESTION ONE

‘Money is anything which is generally acceptable as a medium of exchange and acts at the same time as a measure of value and store of value.’ Justify this statement by outlining in detail the

- (i) Functions of money
 - (ii) Qualities of good money
 - (iii) Kinds of money
- (30 marks)

SECTION B (Attempt any two questions)

QUESTION TWO

What is credit in the banking system? Explain in detail the common instruments of credit within the banking system (20 marks)

QUESTION THREE

Write short notes on the following:

- i. Barter system - (5 marks)
- ii. Credit creation by Commercial Banks (5 marks)
- iii. Liquidity preference (5 marks)
- iv. Bank rate policy (5 marks)

QUESTION FOUR

Assume there are four banks in the banking system A, B, C and D and the reserve ratio is 10%. If a loan of \$ 1000 is issued by bank ‘A’ it will result into advance loans many times greater than this amount illustrate practically this process of credit creation and the total amount that would have been lent at the end of the process (20 marks)