



UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 411: MONETARY THEORY AND PRACTICE

DATE: 10TH APRIL 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

INFLATION, MONETARY TIGHTENING, AND ECONOMIC RECOVERY IN KENYA

Between 2020 and 2023, Kenya experienced a complex macroeconomic environment characterised by supply-side inflationary pressures, exchange-rate depreciation, and post-pandemic economic recovery. Rising global fuel prices, food supply disruptions, and tightening global financial conditions placed significant pressure on domestic prices and the balance of payments.

In response, the Central Bank of Kenya (CBK) adjusted its monetary policy stance through interest-rate tightening, liquidity management, and foreign-exchange market interventions. While these measures aimed at containing inflation and stabilising the shilling, concerns emerged regarding their impact on credit growth, public debt servicing, and overall economic recovery.

Similar policy dilemmas were observed in other emerging economies such as Ghana and South Africa, where central banks faced trade-offs between inflation control and growth support.

Assume that you are part of a Monetary Policy Advisory Team supporting the CBK.

Required:

- a) Analyse the effectiveness of the Central Bank of Kenya's monetary policy tools in managing inflation during periods of external shocks **(10 Marks)**
- b) Evaluate the trade-offs between inflation control and economic growth in Kenya, drawing selective comparisons with other emerging economies **(10 Marks)**
- c) Assess one policy adjustment that could enhance the resilience of Kenya's monetary policy framework against future global inflationary pressures **(5 Marks)**

QUESTION TWO

The Kenyan government relies on a mix of tax and non-tax revenue sources to finance public expenditure aimed at economic growth, social welfare, and infrastructure development.

Required:

- a) Examine five sources of public revenue in Kenya and their contribution to fiscal capacity **(10 Marks)**
- b) Evaluate the objectives of public expenditure in achieving economic and social development goals **(5 Marks)**

QUESTION THREE

In recent years, Kenya has faced revenue shortfalls, expenditure pressures, and unforeseen shocks such as droughts and global economic instability. These challenges have necessitated frequent revisions to the national budget.

Required:

- a) Analyze five roles of budgeting in enhancing fiscal discipline, transparency, and accountability in public finance management **(10 Marks)**
- b) Evaluate the circumstances under which a government may justify the introduction of a supplementary budget **(5 Marks)**

QUESTION FOUR

Public sector accounting information is critical for transparency, oversight, and decision-making by multiple stakeholders in Kenya's public finance system.

Required:

- a) Evaluate the relevance of public sector accounting information to different external stakeholders **(10 Marks)**
- b) Justify the main public sector accounting bases and their implications for financial reporting and accountability **(5 Marks)**

QUESTION FIVE

To finance budget deficits, the Government of Kenya increasingly relies on domestic borrowing through treasury bills, bonds, and other instruments. While domestic borrowing reduces exchange-rate risk, it may crowd out private investment and raise debt-servicing costs.

Required:

- a) Examine the effectiveness of domestic borrowing instruments in financing government expenditure while maintaining macroeconomic stability **(10 Marks)**
- b) Analyse the different categories of government loans and their relevance to long-term debt management **(5 Marks)**

QUESTION SIX

Kenya's devolved system of government requires equitable sharing of national revenue between the national and county governments. The Commission on Revenue Allocation (CRA) plays a central role in advising on revenue sharing and promoting fiscal equity.

Required:

- a) Assess the role of the Commission on Revenue Allocation in promoting fiscal balance and equitable development in Kenya **(10 Marks)**
- b) Evaluate the key drivers of rising government expenditure in Kenya and their implications for fiscal sustainability **(5 Marks)**