11.4.2.3 Speculative Demand for Money:

This motive emphasizes the role of money as a store of wealth. This is basically t desire to hold money in order to take advantage of the developments in the capi markets. This occurs when ever there is uncertainty about future events. An invest has to asses future market prospects before he commits his funds to any type investment. This move is operated so as to ensure that the prospective investor do not incur capital loss in the bonds markets. The amount of cash balances kept f speculate motive will depend on the interest rate payable i.e $M = f(r)$ where r is t interest rate payable in the market. According to Keynes money pays a new rates interest rate and therefore investment in high yielding assets such as bonds if th interest paid is high.

Many other models have thereafter been developed such as the Baumol-Tobin mode which basically is an extension of the Keynesian model, however a detailed treatmen of this model is beyond the scope of this book.

11.5 DETERMINANTS OF MONEY SUPPLY

Money supply refers to money in the hands of public plus demand deposits. $M1 = C +$ D.

There are three types of operations more commonly used by the monetary authorities to change the stock of high - powered money namely open market operations, rediscount operations and foreign - exchange operations. (See the various monetary policies on page 250-207).

Another factor may be financial accommodation of corporations. This is done by government borrowing from the Central Bank or instructing corporations to borrow directly from the central bank. This is basically means printing more money and hence an increase in money supply.

11.6 FINANCIAL INTERMEDIATION

Financial intermediaries bring together the surplus spending deposits with the borrowers spending units. The link between financial development and real development has been noticed historically and argued theoretically.

In these, we normally have banking financial intermediaries such as commercial banks, offering short term loans, maintaining demand deposit accounts, and non-bank financial intermediaries such as development banks, usually offering longterm loans, maintaining time or fixed deposit accounts.

In developing countries like Uganda, the financial system is still at a rudimentary stage. There is a narrow range of financial institutions, instruments and activities. In Uganda, the system is mainly dominated by government financial institutions such as Uganda Commercial Bank (UCB) with its branches. The economy still faces limited financial activity which is particulary biased to urban areas. Most of them are found in the urban city of Kampala. They also have limited number of financial instruments for the mobilisation of savings deposits.

Financial intermediaries in Uganda are faced by a number of problems.