OLABISI ONABANJO UNIVERSITY, AGO-IWOYE
CENTRE FOR SANDIWICH PROGRAMMES
FACULTY OF MANAGEMENT SCIENCES
2007/2008 MID SEMESTER TEST

COURSE TITLE: **INTERMEDIATE MACROECONOMICS**
COURSE CODE: **ECO 302**
TIME ALLOWED: **1:15Minutes**
INSTRUCTIONS: Answer any **THREE** questions.

1a. Outline and discuss the factors influencing Investment in Nigeria.

b. Discuss any three named Theory of Consumption, stating the weakness of each

c. Using the Fisher's equation of MV = PQ: Derive the expression to justify that price elasticity of money supply with respect to price level is 1

i.e dm/dp multiply by p/m = 1

2a. Writeshort notes on

(i) Acceleration Principle

(ii) Stocks and Flow.

(iii) Neutrality of Money.

(iv) Comparative Static Equilibrium.

(v) Expenditure approach of measuring national income.

b. Agro. Ltd has under consideration an investment which will require immediate expenditure of N50,000. The project will have a life span of 7years. At end of the 7th year, the residual value is N25,000. Net cash flow is given as:

Year	1	2	3	4	5	6	7
Amount	10,000	12,500	16,000	18,000	19,500	20,000	25,000

Using (i) NPV (ii) IRR, critically evaluate the viability of the project, assuming discount rate is 12%.

3. Given an economy with autonomous consumption as N90billion, MPC = 2/5, Disposable Income = Y-T+R, R = R_0 + rY = 240+0.25Y, T = T_0+tY. If autonomous tax equals autonomous transfer payments, net export = 400b-0.25Y,

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$I_0 = 1/2G_0 = 300$ and tax rate (t) is 0.2. Required,

a. Compute the equilibrium national income for the economy

b. Find the value of consumption and disposable income at equilibrium

c. Determine and interpret autonomous tax multiplier, autonomous import multiplier and the investment multiplier.

d. If MPC declines by 40%, government spending doubles the gross capital formation while other variables remain unchanged. Calculate the new equilibrium national income.

4a. What is the present value of N700million to be paid at the end of 6 years at 7.5% discount factor rate?

b. Compare and contrast the Cambridge and the Modern Quantity theory of Money.

c. Suppose full employment income $Y_f = 700$, $C = 40+0.8Yd$, $Yd = Y-T$, $T = 0.1Y$, $M = 0.12Y$ and $I+G+X^1 = 160$.

(i) Calculate the equilibrium national income

(ii) How much increase in government spending will achieve full employment income?

(iii) Calculate the Gap (Inflationary or Deflationary)