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OLABISI ONABANJO UNIVERSITY, AGO-IWOYE
DEPARTMENT OF ECONOMICS
FACULTY OF MANAGEMENT SCIENCES
RAIN SEMESTER EXAMINATION, 2006/2007

Course Code: ECO 302
Course Title: Intermediate Macroeconomics
Instructions: Answer Question 1 and any other two
Time Allowed: 1 ½ Hrs

(1)a. In what ways will the proposed Naira redenomination affect the computation of National Income in Nigeria?

b. Given an economy with autonomous consumption as N75billion, MPC= ⅓, Disposable Income = $Y-T+R$, $R=R_0+rY=$ N240b + 0.25Y, $T=T_0+tY$, where autonomous tax equals autonomous transfer payments, Net export= N450b-0.3Y, I_0= ⅓ G_0= N250b, tax rate (t) = 0.2.

Required: (i) Compute the equilibrium national income for the economy.

(ii) Find the value of consumption and disposable income at equilibrium.

(iii) Determine and interprete autonomous tax multiplier, autonomous import multiplier, and investment multiplier.

(iv) If MPC declines by 30% and government spending doubles the gross capital formation, while tax rate remains unchanged, find the value of new equilibrium national income, the net export and the government multiplier.

(2) a. Distinguish clearly between the Permanent Income, Relative Income and Life Cycle Hypothesis and how they affect the levels of consumption

b. The consumption function is central to the determination of the concepts of Marginal propensity to consume, Income Multiplier and Determination of National Income. Do you agree? And Why?

(3) a. What factors will you consider to be responsible for the low level of domestic and foreign investments in Nigeria, and how can these factors be eliminated.

b. Interest rate plays a less significant role than the level of money supply in determining the level of investment in Nigeria. Do you agree and why?

(4) a. Highlight and discuss any three criteria for evaluating investment options.

b. Shallom Ltd has under consideration an investment which will require initial investment expenditure of N50,000. The project will have a life span of 7 years. At the end of the 7th year, the residual value is N20,000. Net cash flow statement is as follows:

Year	1	2	3	4	5	6	7
Amount	12,000	12,500	16000	18000	15000	16000	20000

Using NPV, BCR and IRR, critically evaluate the viability of the project, assuming discount rate of 10%