

OLABISI ONABANJO UNIVERSITY, AGO-IWOYE
FACULTY OF SOCIAL AND MANAGEMENT SCIENCES
DEPARTMENT OF ECONOMICS
2011/2012 SECOND SEMESTER EXAMINATION

COURSE CODE/TITLE: ECO 202-PRINCIPLES OF ECONOMICS II

TIME ALLOWED: 1 HOUR 30 MINUTES

INSTRUCTIONS: ATTEMPT ALL QUESTIONS IN SECTION A AND ONLY ONE QUESTION FROM SECTION B.

ANSWER ALL QUESTIONS IN THE BOOKLET PROVIDED

SECTION A

1. Choose the most appropriate option:

- (i) Macroeconomics deals with ____ (a) The firms and how they carry out production in the economy (b) ☒ The aggregate, the economy as a whole (c) The environment and how to avoid flooding (d) How to raise capital in the stock market (e) None of the above
- (ii) The subject being discussed is macroeconomics if all of the following issues are involved ____ (a) How firms procure their raw materials (b) Interest rates, prices and wages (c) ☒ Business cycles, unemployment, and inflation (d) Productivity of employed workers (e) Supply and demand in a competitive firm.
- (iii) Which of the following best captures the goals of macroeconomic policies? (a) ☒ Ensuring economic growth and development (b) Guaranteeing the competitiveness of markets (c) Providing the enabling environment for foreign direct investment (d) Avoiding anti-trust activities in the economy (e) Providing enough food for the aged in society
- (iv) Equations contain exogenous and endogenous variables as well as constant and error terms usually arranged in the following order: (a) exogenous = error term + constant + endogenous (b) endogenous = error term + exogenous + constant (c) exogenous = endogenous + constant term + error term (d) constant = endogenous + exogenous + error term (e) endogenous = constant + exogenous + error term
- (v) In the circular flow of income, the following holds ____ (a) Households produce consumables sold in the goods market (b) Firms own the goods sold in the products market (c) ☒ Households own resources traded in the products market (d) Trading of finished goods takes place in the products market (e) None of the above.

2. Given the following information: $Y = \frac{\beta - bT_0 + bR_0 + I + G + X - M}{1 - b + bt - br + m}$

Where $mps = 0.40$, $\beta = N60m$, $C = \beta + bY^d$, $Y^d = Y - T + R$, $R = R_0 + rY = N20m + 0.1Y$, $I = N50m$, $G = N70m$, $X = N85m$, $T = T_0 + tY = N30m + 0.2Y$, $M = M_0 + mY = N20 + 0.3Y$

$$Y = \frac{60 - 0.6(30) + 0.6(20) + 50 + 70 + 85 - 20}{1 - 0.6 + 0.6(0.2) + 0.6(0.1) + 0.3}$$

$$= \frac{239}{0.76} = 314.47$$

Note: $MPs = 0$
 $MPC = b$
 $MP_c = 1 - MP_s$
 $b = 0.60$

- 3(a)

From the table above,

Deuxi d

The figure represent Comparative Cos Advantage propounded by Ricardo in advance in

- Differentiate between "Absolute Cost Advantage and Comparative Advantage theory of international trade (5 marks)

SECTION II

- Diagram, and brief explanation (7 marks)

- (v) cyclical and frictional unemployment. (15 marks)

(iv) progressive tax and proportional tax
 (v) cyclical and frictional unemployment. (15 marks)

defines money supply as COB + privately hld DD with comm bks $M_1 = \text{COB} + \text{DD}$

" " " as " " " = ± deposit liability on mar

taxes"

$M_2 = \text{COB} + \text{DD} + \text{SD} + \text{TD}$

tax are levied directly from income of an individual & firm

CIT etc. Indirect tax are taxes levied on goods & services.

this type of tax cat bridges d gap btw rich and the poor