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CENTRE FOR SANDWICH PROGRAMMES (CESAP)
FACULTY OF SOCIAL AND MANAGEMENT SCIENCES
DEPARTMENT OF ECONOMICS

2009/2010 SESSION RAIN SEMESTER EXAMINATION

Course Code & Title: ECO202- Principle of Economics II

Time Allowed: 1 Hour

Instructions: Answer ALL questions in Section A and ONE in Section B.

SECTION A

1. Given the following data:

$$Y = \frac{a - bT_0 + bR_0 + I + G + X - M_0}{1 - b + bt - br + m}$$

where $mps=0.4$, $R = R_0 + rY = N20m + 0.1Y$, $X = N85m$, $G = N70m$, $I = N50m$,
 $M = M_0 + mY = N20 + 0.3Y$, $T = T_0 + tY = N30m + 0.2Y$, $a = N60$, $C = a + bY^d$ and $Y^d = Y - T + R$.

(a) find the value of the following at equilibrium;

(i) National Income (ii) Aggregate consumption (iii) Disposable income (iv) net export (v) tax revenue

(b) obtain the tax and the transfer payment multiplier.

(c) What are the factors that could influence the magnitude of the GDP of an economy.

2. Fill in the gaps with appropriate words/phrases

- (i) The supply of money is exogenously determined by.....
- (ii) The life cycle theory of consumption was put forward by,, and
- (iii) consists of funds expended by firms or government towards increasing a country's stock of capital goods.
- (iv) The sale of government securities is carried out by through a process called
- (v) unemployment is associated with the depression phase of of the business cycle.
- (vi) Tax widens the gap between the poor and the rich.
- (vii) In the computation of the GDP; imports, savings and taxes are treated as
- (viii) Public Finance generally entails the use of and to regulate the economy.
- (ix) measures the changes in the cost of living of people resulting from changes in retail prices.
- (x) is achieved through effective control of aggregate price level.
- (xi) The trade off between inflation and unemployment is illustrated by curve.
- (xii) is one of the factors that made trade by barter to thrive.

3. State whether each of the following statements is True (T), False (F) or Ambiguous (A) with a brief explanations.

- (i) The difference between real and nominal variables is price level.
- (ii) Full employment is synonymous with zero percent of unemployment.
- (iii) Divisibility is feature that money must possess in order to function effectively as a standard of deferred payment.

- (iv) The most volatile component of the National Income is import.
- (v) The principle of a good tax system, were identified by David Ricardo.
- (vi) All savings in the economy are done by the households only.
- (vii) Frictional unemployment is caused by technological changes while structural unemployment may arise due to recession in the economy.
- (viii) Expansionary fiscal policy is an effective means of controlling inflation.
- (ix) Comparative cost advantage is to Adam Smith while Absolute cost advantage is to David Ricardo.
- (x) Based on the accelerator principle of investment, if output is greater at time t , is greater than output at time $t-1$, we have positive net investment.

SECTION B

Attempt only **ONE** question in this section.

4. (a) Explain the Permanent Income Hypothesis.
(b) What are factors that influence investment in Nigeria.
(c) What are the high causes of high rate of inflation in Nigeria.
5. Write short notes on the following:
(a) Speculative demand for money (b) M_1 and M_2 definition of money
(c) Price stability (d) Nominal and real GDP.
(e) Balance of Payment.