NATIONAL OPEN UNIVERSITY OF NIGERIA
14/16 AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS
SCHOOL OF MANAGEMENT SCIENCES
SEPTEMBER/OCTOBER 2015 EXAMINATION

COURSE CODE: **BUS802** **CREDIT UNIT: 2**
COURSE TITLE: **Economic Theory**
TIME ALLOWED: **2 hrs**
INSTRUCTIONS: **1. Attempt question number one (1) and any other (2) questions.**
2. Question number 1 carries 30 marks, while the other questions carry 20 marks each.
3. Present all your points in coherent and orderly manner.

QUESTION 1:

(a) The following equation represents a relationship between household consumption expenditure, C and income, Y: $C = 120 + 0.65Y$
Explain what the figure, 120 stands for in the consumption-income relationship, and the type of relationship. **5Marks**

(b) Suppose the different income levels are as follows(N'billions):

Y = 100, 120, 125, 140, 80, 115, 145, 150, 166, 200, calculate the corresponding consumption levels using the relationship specified. **10Marks**

(c) Assume that an individual's utility function is given by: $U = X_1X_2$; that $P_1 = 2$ naira, $P_2 = 5$ naira; and, that the individual consumer's income for the period of analysis is N10,000. What are the units of goods X_1 and X_2 that the consumer must purchase and consume in order that he/she maximises his/her utility? **15Marks**

QUESTION 2:

(a) List and explain the basic goals of Monetary Policies **12Marks**

(b) Which of the following statements is true, and why?

i. If price elasticity = 1, MR = 0

ii. If price elasticity > 1, MR > 0

iii. If price elasticity < 1, MR < 0 **8Marks**

QUESTION 3

(a) Define and distinguish between Own-price elasticity and cross-elasticity of demand for a given product. **14Marks**

(b) Explain the steps involved in the procedure of multiple regression analysis. **6Marks**

QUESTION 4

(a) Briefly explain the different types of demand in relation to making a product decision **10Marks**

(b) Explain the Macroeconomic models with relevant examples **8Marks**

QUESTION 5

Using the appropriate graphical illustrations, explain why the existence of liquidity trap may render monetary policy ineffective during the time of economic depression. 20Marks.