



**National Open University of Nigeria**  
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi- Abuja

**Faculty of Social Sciences**  
**Department of Economics**

**October/November Examination 2016**

**Course Code: ECO 343**  
**Course Title: Monetary Theory and Policy**  
**Credit unit: 3**  
**Time Allowed: 3 hours**

**Instruction: Answer QUESTION ONE (COMPULSORY) and any other three questions**

**Question:**

1. Given the following example of money supply, calculate M1, M2, M3 and M4.  
**(25 marks)**

i.	Currency with public	84,000
ii.	Demand deposits with banks	68,000
iii.	Other deposits with commercial banks.	3,612
iv.	Total deposits with Post office	22,500
v.	Time deposits with banks	200,555

Vi	Post office saving bank deposits	5,528

2. List the constraints inhibiting monetary policy effectiveness in Nigeria. **(15 mark)**

3. What is High-Powered Money (H)? **(15 mark)**

4. List and explain assumptions of the Keynesian reformulated quantity theory of money. **(15 mark)**

**5(a).** Suppose that First Bank of Nigeria Plc. has reserves totaling N100,000 on N1,000,000 of deposits. The reserve requirement is 10 percent. Can this bank make any new loans? Explain. **(5 mark)**

**(b).** Assuming that Obaka, fearing an impending financial crisis, withdraws N20,000 from his account at the same branch of First Bank of Nigeria Plc. and buries the cash in his backyard. By how much will the bank have to reduce its loans? Calculate the maximum amount the money supply may contract as a result. Show your work. **(10 mark)**

**6(a).** If the quantity of money (M) is N5,000,000 in an economy, the velocity of circulation of money (V) is 5; and the total output to be transacted (T) is 2,500,000 units. Calculate the average price level (P). **(10 mark)**

**(b).** What is the current market value (V) of a bond carrying a 4 per cent rate of interest (r) and an annual return (R) of N4? **(5 mark)**