



**NATIONAL OPEN UNIVERSITY OF NIGERIA
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
2021_1 EXAMINATION**

COURSE TITLE: ADVANCED MACROECONOMIC THEORY

COURSE CODE: ECO 712

UNITS: 3

TIME ALLOWED: 3 HOURS

INSTRUCTION: ANSWER ANY FOUR QUESTIONS. ALL QUESTIONS CARRY EQUAL MARK.

QUESTION 1

- a. Formulate consumption function and savings function for a hypothetical consumer. **(6 MARKS)**
- b. Mr. Monacs receives ₦20,000 monthly after tax, his marginal propensity to save is 25% although his office provides lunch for him over ₦500 monthly. Derive Mr. Monacs consumption function and estimate his total consumption for the month.
(4 MARKS)
- c. List any five factors that led to the emergence of fiat money.
(7.5 MARKS)

QUESTION 2

- a. Explain the concept of investment and how it interrelates with savings **(4 MARKS)**
- b. In a clear term establish the relationship between saving, consumption and investment proving $S=I$. **(3.5 MARKS)**
- c. With the aid of an illustrated diagram, briefly discuss inflationary gap. **(3 MARKS)**
- d. List and explain seven determinant of investment. **(7 MARKS)**

QUESTION 3

- a. An economy is characterised by the following: $C = 200 + b(Y-50-tY)$; $M = 5+0.5Y$; $I = 50$; $G = 50$; $X=20$. The tax rate is at 50% while the marginal propensity to save is given at 30%. Find the equilibrium level of national income. If NI changes to 500, how much will the government increase its expenditure to maintain equilibrium? **(7.5 MARKS)**

- b. Calculate the National Income Equilibrium, given the following below

$$Y = C + I + G + X - M$$

$$C = a + bY_d$$

$$Y_d = Y - T$$

$$T = T_o + tY$$

$$I = I_o$$

$$G = G_o$$

$$X = X_o$$

$$M = M_o$$

(10 MARKS)

QUESTION 4

- a. List 5 factors that influences the demand for money **(5 MARKS)**
- b. Differentiate between the Classical approach and the Cambridge approach of demand for money. **(4 MARKS)**
- c. List the functions of the CBN in the economy **(5 MARKS)**
- d. The statutory mandate of the CBN is to maintain "monetary stability". How do they achieve this? **(3.5 MARKS)**

QUESTION 5

- a. Explain in details any **TWO** of the following shortfalls
- i. The Classical Theory of Interest(shortfalls) **(5 MARKS)**
 - ii. The Loanable Funds Theory of Interest(shortfalls) **(5 MARKS)**
 - iii. Liquidity Preference Theory of Interest Rate (shortfalls) **(5 MARKS)**
 - iv. Modern Theory of Interest **(5 MARKS)**
- b. Comparative Statistics method is important in analysing the effects of causes which bring about disturbances but is unable to explain the process of change from one position of equilibrium to another. Explain. **(5 MARKS)**
- c. Briefly explain any **ONE** of the following :
- i. Verbal Statement: **(2.5 MARKS)**
 - ii. Graphs: **(2.5 MARKS)**
 - iii. Equations/Models: **(2.5 MARKS)**