



**NATIONAL OPEN UNIVERSITY OF NIGERIA
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
2017_2 EXAMINATION JANUARY/FEBRUARY 2018**

**COURSE TITLE:MACROECONOMIC THEORY II
COURSE CODE: ECO 342**

UNITS: 3

TIME ALLOWED: 2 ½ Hours

**INSTRUCTION:ANSWER ANY FOUR (4) QUESTIONS. ALL QUESTIONS
CARRY EQUAL MARKS**

Question One

Exchange rate is the price a country's currency paid to acquire other currencies of the World. A country's currency depreciates when the country is unable to compete favorable in the international trade, which leads to inability of the country to conserve foreign exchange. In the light of continuous depreciation of naira (₦), it implies more naira would be needed for a unit of other currencies. Nigeria being a consuming nation, for instance over 50% of premium motor spirit (PMS) consume in Nigeria are imported.

- a. What are the economic effect of naira depreciation? **5.5 marks**
- b. What do you think can be done, in term of bail out policy on exchange rate and other control measure to relief this pressure? **5 marks**
- c. If government exchange rate policy is strictly market base, what are the consequences of this policy?

7 marks

Question Two

- d. a. Inflation is a known monetary phenomenon that is always present in every economy of the world, however, with varying degree of magnitude and frequency. What are the causes, effects and remedies to this 'menace'.**13 marks**

- b. Clearly discuss the wage-price spiral of inflation and unemployment nexus. **4. 5 marks**

Question Three

No man is an Island they say; this adage is not only applicable to men but also countries. There is no country in the World that is self sufficient (autarky). Therefore, countries engage in trade among one another to further enhance

usage and allocation of global resources. To this end, a country produces competitively to sell those goods and services she has more comparative advantage and buys those she has less comparative advantage.

- (a) In international trade, what does the process of buying and selling refer to? **5.5 marks**
- (b) Explain the following concepts in relation to achieving equilibrium balance of payment. **12 marks**
- i) Devaluation of currency
 - ii) Depreciation of currency
 - iii) Appreciation of currency
 - iv) Revaluation of currency

Question Four

An economic problem ensues when a country's exports value shortfalls of its imports value, most developing countries suffer from this unequal economic relationships. This problem also leads to loss of foreign exchange conservation and management of exchange rate.

- (a) What economics term could be used to represent this problem? **3.5 marks**
- (b) What are the possible solutions to the problem identified above? **14 marks**

Question Five

a) Given that $Y = C + I$; and $Y = C + S$, Show that at equilibrium aggregate savings equal aggregate investment. Where, Y, C, I and S are: Income, Consumption, Investment and Savings respectively.

5.5 marks

b) Suppose an economy is characterized by the following structural equations,
 $Y = C + I + G + X - M$.

$C = 150 \text{ million} + 0.5(Y - T)$; $T = 100 \text{ million}$; $I = 120 \text{ million}$; $G = 130 \text{ million}$; $X = 150 \text{ million}$; $M = 120 \text{ million}$.
Where C = Consumption, T = Tax, I = Investment, G = Government expenditure, X = export and M = Import and Y = output/ Income, All values are presented in Naira.

- i) Determine equilibrium national income **6 marks**
- ii) If government increases its expenditure to 250 million, what would the new equilibrium national income be? **6 marks**

Question Six

a) Explain the following terms and show clearly their mathematical representations/equations. **6 marks**

- i) Aggregate Consumption
- ii) Aggregate Investments
- iii) Aggregate Saving

- b) Explain Fisher's "Equation of Exchange" **4 marks**
- c) Discuss the effects of unemployment in Nigeria. **4 marks**
- d) Differentiate between unemployment and underemployment. **3.5 marks**