



NOUN
NATIONAL OPEN UNIVERSITY OF NIGERIA
DEPARTMENT OF ECONOMICS
FACULTY OF SOCIAL SCIENCES
2022_2 EXAMINATION

COURSE TITLE: ECONOMIC THEORY

COURSE CODE: ECO 802

UNITS: 3

TIME ALLOWED: 3HOURS

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS. QUESTION ONE CARRIES 25 MARKS WHILE OTHER QUESTIONS CARRY 15 MARKS.

QUESTION ONE

1. Briefly explain the term; Short-Run Equilibrium. **5MARKS**

1b. Determine the reduced form of the following equation: **5MARKS**

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

$$C = C_o + c(Y - T + R)$$

$$I = I_o, G = G_o, T = T_o, R = R_o, X = X_o, M = M_o + mY,$$

Where: M_o = autonomous import, and m = the marginal propensity to import.

1c. Given the following information of the Nigerian economy: **9MARKS**

$$C = 140 + 0.8(Y_d)$$

$$I = 400, G = 600, T = 730, R = 0, X = 300 \text{ and } M = 0.05Y$$

You are required to compute the Nigeria equilibrium level of national income.

1cii. Let say, due to the COVID19 pandemic, there is changes in the prices of both foreign and domestic products, such that the marginal propensity to import (MPI) declines to 0.02. What will be the effect of MPI changes on Nigeria equilibrium level of income? **3.5MARKS**

1ciii. On the other hand, let say due to government favourable policies, investment increases to ₦600 billion. What will be the effect of this change on Nigeria equilibrium level of income? **2.5MARKS**

QUESTION TWO

2. List and explain briefly any three ways, advertisement costs (while attempting to promotes sales), helps in increasing the demands of a product such as Pepsi. **3MARKS**

2b. A production function is based on some assumptions, list any four of these assumptions. **4MARKS**

2c. The solutions to optimisation or minimisation problem in linear programming are based on some assumptions, explains these assumptions? **8MARKS**

QUESTION THREE

3. In what way is opportunity cost differ from accounting and economic cost. **4½MARKS**

3b. With the aid of a graph, explain the substitution effect of Mr. Bakare buying an additional unit of rice due to price decline while unit price of bean remain unchanged. **10½MARKS**

QUESTION FOUR

4. Concisely explain the simple consumption function. **3MARKS**
- 4b. With the aid of graph/s, briefly describe the relationship between total product (TP), marginal product (MP), likewise average product (AP) and marginal product (MP).
12MARKS

QUESTION FIVE

5. The difference in incomes among households can arise from differences in wage rate (W), hours worked (L), rent (r) and capital ownership (K). Some economic indicators principally determine these four variables (w , L , r , and K); briefly explain these possible economic determinants. **12MARKS**
- 5b. State the 'Pros' and 'Cons' of aggregation in macroeconomics variables. **3MARKS**