



**NATIONAL OPEN UNIVERSITY OF NIGERIA
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
2024 1 EXAMINATION**

COURSE TITLE: ECONOMIC THEORY

COURSE CODE: ECO 802

CREDIT UNITS: 3 UNITS

TIME ALLOWED: 3 HOURS

INSTRUCTION: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS

1. Perfectly competitive prices creates room for production efficiency in the economy. However, there are underlying allocation rules associated with the production system. List and explain 3 of the rules (25mks)
2. The adoption of linear programming to tackle economic challenges considers a number of assumptions. List and discuss 5 of these assumptions (15 mks)
- 3a. What are public goods?
- 3b. Show how the existence of public goods promote economic growth in Nigeria (15 mks)
4. Assume that an individual's utility function is given thus: $U = x_1 x_2$ and $P_1 = ₦2$, $P_2 = ₦5$ whereas the consumer income is ₦10,000. Show the units of goods of x_1 and x_2 the consumer must purchase in order to maximize his utility (15 mks)
5. What is liquidity trap?
- 5b. What is the consequence of liquidity trap during depressed economy (15 mks)