



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI,**  
**ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2020\_1 EXAMINATION**

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**COURSE CODE: BFN302** **CREDIT UNIT: 3**  
**COURSE TITLE: Monetary Theory & Policy**  
**TIME ALLOWED: 2<sup>1/2</sup> HOURS**  
**INSTRUCTIONS:** 1. Answer question number one (1) and any other three  
2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each  
3. Present all your points in coherent and orderly manner

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**QUESTION 1 (COMPULSORY)**

- (a) i. Differentiate between Balance of Payment and Terms of Trade. **(3 marks)**  
ii. If a country's export price index is 100 and import price index is 80, calculate and explain the country's terms of trade. **(5 Marks)**
- (b) An economy XYZ has the following income related statistics:  
Consumption ₦10m, Investment ₦50m, Government Expenditure ₦ 100m, Export ₦800m  
Import ₦300m.  
(i) Find the National Income if the economy is an open economy **(5 marks)**  
(ii) What will be the national income if the economy is a closed economy? **(5 marks)**
- (c) A government's projected expenditure stands at ₦50billion for a fiscal year with an expected revenue of ₦45billion. What is the name given to the difference between the expected revenue and projected expenditure? **(3 Marks)**  
State four (4) ways through which the government can deal with the difference as observed. **(4 Marks)**

**QUESTION TWO**

- (a) Differentiate inflation from deflation **(5 Marks)**  
(b) Discuss five (5) causes and five (5) consequences of inflation **(10 Marks)**

### **QUESTION THREE**

- (a) Define Public Debt **(3 Marks)**
- (b) Why will Nigeria as a country borrow in spite of her abundant natural resources? Give at least three (3) reasons. **(6 Marks)**
- (c) Explain three (3) negative effects of increasing debt profile on a Country. **(6 Marks)**

### **QUESTION FOUR**

- (a) Define Financial Institution and give two (2) examples each of Bank and Non-Bank financial Institutions. **(5 Marks)**
- (b) State five (5) functions of the Central Bank of Nigeria as an apex monetary authority **(10 Marks)**

### **QUESTION FIVE**

- (a) Explain the three(3) motives behind demand for money **(6 Marks)**
- (b) Show three (3) ways through which the functions of money have addressed the problems of Barter Trade. **(6 Marks)**
- (c) Briefly differentiate liquidity preference theory from the quantity theory of money **(3 Marks)**

### **QUESTION SIX**

- (a) What is development planning? **(5 Marks)**
- (b) Show the five (5) differences between a budget and a development plan **(5 Marks)**
- (c) What are the benefits of development planning? Give at least five(5) **(5 Marks )**