



**NATIONAL OPEN UNIVERSITY OF NIGERIA  
FACULTY OF SOCIAL SCIENCES  
DEPARTMENT OF ECONOMICS  
SEPTEMBER, 2020\_1 EXAMINATIONS**

**COURSE TITLE: MACROECONOMIC THEORY II**

**COURSE CODE: ECO 442**

**UNITS: 2**

**TIME ALLOWED: 2 HOURS**

**INSTRUCTION: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE**

(a). With the aid of diagram discuss the Circular Flow of Income and spending in a two sectors model (5marks)

(b) Given the following structural equations of a hypothetical economy

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

$$C = 100 + 0.40 Y_d$$

$$Y_d = Y - T$$

$$T = 80$$

$$I = 40 + 0.12Y$$

$$G = 110$$

$$X = 140$$

$$M = 130$$

Calculate:

- i) Equilibrium national income (5marks)
- ii) Income multiplier (3marks)
- iii) What effect will a 30% cut in government expenditure have on equilibrium national income. (5marks)
- iv) Suppose the tax rate is expressed as a function income i.e.  $T = 20 + 0.1Y$ , what will be the level of the new national income. (7marks)
- v) Calculate the new investment multiplier. (5marks)

**(30marks)**

**QUESTION TWO**

(a)(i). Explain the concepts of Consumption and Savings (5marks)

(ii) Briefly make a clear distinction between Absolute Income Hypothesis and Relative Income Hypothesis. (9marks)

(b). Discuss extensively the Permanent Income Hypothesis. (6marks)

**(20marks)**

### **QUESTION THREE**

- (a). Distinguish between capital and investment. (5marks)
  - (b). Briefly discuss the three types of investment. (9marks).
  - (c). Discuss the determinants of investment. (6marks)
- (20marks)**

### **QUESTION FOUR**

- (a) Discuss the accelerator theory of investment. (7marks)
  - (b). List and explain five (5) Shortcomings of the accelerator theory. (6marks)
  - (c). Discuss the term 'Marginal Efficiency Hypothesis'. (7marks).
- (20marks)**

### **QUESTION FIVE**

- (a). Discuss three (3) Shortcomings of the marginal efficiency theory. (7marks)
  - (b). Discuss the relationship between the MEC (Capital stock) and the MEI (Investment). (8marks)
  - (c). Discuss extensively the determinant of the elasticity of the MEC schedule. (5marks)
- (20marks)**