ACHIEVER'S EDUCATION CONSULTANT
08141710097
SUMMARY OF ECO341 WITH PAST QUESTIONS

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This course guide is built on prerequisite knowledge , however, its simplicity will make the student assimilate faster and practice question at the end of each unit will also prepare the student for the examination. It suggests some general guidelines for the amount of time required of you on each unit in order to achieve the course aims and objectives successfully. It also provides you with some guidance on your tutor marked assignments as contained herein. The course is made up of twenty-one units spread across twenty-one lecture weeks and covering areas such as the concept of saving, consumption and investment, national income models, classical and Keynesian models, theory of money, macroeconomic policy models, theory of prices level, internal and external balance and lastly economic growth theory.

Course Aims and Objectives The course aims to give users in-depth understanding of the macroeconomic theoretical background and prepare the student with policy mix with which macroeconomic disequilibrium could be tackled. Also, the course is prepared in a way in which the users would easily augment their previous knowledge with new ideas. Discussing the evolution of money-barter trade and counter trade overview.

Working through the Course

To successfully complete this course, you are required to read the study units, referenced books and other materials on the course. At some points in the course, you will be required to submit assignments for assessment purposes. This course should take about 15weeks to complete and some components of the course are outlined under the course material subsection.

[...]

There are 21 units in this course which should be studied carefully and diligently.

Some Characteristic of Growth

While module 3 covers detailed description of investment concept, investment function and graph and the determinants of investment. The fifth module explains the concept of money with special reference to barter trade, it gives succinct analysis of the evolution of money and describes features and functions of money and finally explain the various types of money. While the last module considered the theory of economic growth and development and distinguished between economic growth and development and lastly discusses some selected and relevant economic growth theories. Each study unit will take at least 30 minutes, and it include the introduction, objective, main content, self-assessment exercises, conclusion, summary and references.

Some of the self-assessment exercises will necessitate discussion, brainstorming and argument

with some of your colleagues. You are advised to do so in order to understand and get acquainted with the course work. There are also textbooks under the reference and other resources for further reading. They are meant to give you additional information if you can obtain any of them.

By doing so, the stated learning objectives of the course would have been achieved.

References and Other Resources

Every unit contains a list of references and further reading materials. Try to get as many as possible of these textbooks and materials listed. The textbooks and materials are meant to deepen your knowledge of the course. The marks you obtain for these assignments will count toward the final mark you obtain for this course.

Further information on assignments will be found in the Assignment File itself and later in this Course Guide in the section on Assessment.

[...]

The presentation schedule included in your course material gives you the important dates for this year for the completion of tutor-marked assignments and attending tutorials. Remember, you are required to submit all your assignments by the due date. You should guide against falling behind in your work. In attempting the assignments, you are expected to apply information, knowledge and techniques gathered during the course.

The assignments must be submitted to your tutor for formal assessment in accordance with the deadlines stated in the Presentation Schedule and the assignments File. The work you submit to your tutor for assessment will count for 30 % of your total course mark. At the end of the course, you will need to sit for a final written examination of three hours' duration.

Tutor-Marked Assignments

You will submit all the assignments. You are encouraged to work all the questions thoroughly. TMAs constitute 30% of the total score. Assignment questions for the units in this course are contained in the Assignment File.

You will be able to complete your assignments from the information and materials contained in your books, reading and study units. However, it is desirable that you demonstrate that you have read and researched more widely than the required minimum. When you have completed each assignment, send it, together with a TMA form, to your tutor. Make sure that each assignment reaches your tutor on or before the deadline given in the Presentation File.

If for any reason, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Extensions will not be granted after the due date unless there are exceptional circumstances. The final examination will be of three hours' duration and have a value of 70% of the total course grade. The examination will consist of questions which reflect the types of self-assessment practice exercises and tutor-marked

problems you have previously encountered.

Use the time between finishing the last unit and sitting for the examination to revise the entire course material. You might find it useful to review your selfassessment exercises, tutor-marked assignments and comments on them before the examination. The table presented below indicate the total marks allocation.

Final Examination

Marks In distance learning, the study units replace the university lecturer. Think of it as reading the lecture instead of listening to a lecturer. Just as a lecturer might give you an in-class exercise, your study unit provides exercises for you to do at appropriate points. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole.

Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit you must go back and check whether you have achieved the objectives.

The main body of the unit guides you through the required reading from other sources. Some units require you to undertake practical overview of historical events. First, it will enhance your understanding of the material in the unit. Second, it will give you practical experience and skills to evaluate economic arguments, and understand the role of history in guiding current economic policies and debates outside your studies.

Self-assessments are interspersed throughout the units, and answers are given at the ends of the units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-assessment exercise as you come to it in the study unit. Also, ensure to master some major historical dates and events during the course of studying the material.

The following is a practical strategy for working through the course. If you run into any trouble, consult your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information, e.g. details of your tutorials, and the date of the first day of the semester is available from the study centre. You need to gather together all this information in one place, such as your dairy or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working through each unit.

ϖ Once you have created your own study schedule, do everything you can to stick to it. If you get into difficulties with your schedule, please let your tutor know before it is too late for help. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your text books or other

articles.

Use the unit to guide your reading. ϖ Up-to-date course information will be continuously delivered to you at the study centre. ϖ Work before the relevant due date , get the Assignment File for the next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully.

They have been designed to help you meet the objectives of the course and, therefore, will help you pass the exam. ϖ When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule. ϖ When you have submitted an assignment to your tutor for marking do not wait for its return before starting on the next unit.

When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also written on the assignment. Check that you have achieved the unit objectives and the course objectives . There are some hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the name and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter, and provide assistance to you during the course. You must mail your tutor-marked assignments to your tutor well before the due date . They will be marked by your tutor and returned to you as soon as possible. The following might be circumstances in which you would find help necessary.

Contact your tutor if, You do not understand any part of the study units or the assigned readings You have a question or problem with an assignment, with your tutor's comments on an assignment or with the grading of an assignment. You should try your best to attend the tutorials. You can raise any problem encountered in the course of your study. You will learn a lot from participating in discussions actively.

This course, Macroeconomic Theory I , exposes the users to macroeconomics fundamentals such as National Income models, concepts of saving, consumption and investment, as well as issues to do with macroeconomic policy objectives, instruments and targets. The use of the instrument to anchor the targets to achieved macroeconomic equilibrium i.e. internal and external balance. On successful completion of this course, you would have developed critical thinking skills with the material necessary for efficient and effective discussion of economic issues and events both theoretically and practically. We wish you success with the course and hope that you will find it both interestingly intuitive and obligingly useful.

UNIT 1: OVERVIEW OF MACROECONOMICS CONCEPT

The main aim of this study unit is to examine the meaning of macroeconomics theory and analysis. However, the exigency of macroeconomics theory and principle are clearly explained in this study unit . In addition to the meaning of macroeconomics, students are also exposed to the

nature and features of macroeconomics studies. Students are expected to have clearer understanding of these economic concepts, However, these concepts are divergent but yet converge, this is to say that, these concepts differ in analyses, principles, theories and applications but yet apply to achieve same goals, that is, optimization of economic activities at all levels.

Conceptually, economics theory and principles are divided into two broad branches, microeconomics and macroeconomics.

[...]

This break through subsequently gave rise to the Keynesian cross which is now referred to as Keynesian Economics. The term Macroeconomics can be defined as the study of aggregate variables in an economy such as total consumption level, autonomous investment and government expenditure. Explain in the detail the meaning of macroeconomics. Features and Nature of Macroeconomics The characteristics or features of macroeconomics are encompassed in its summative or aggregative impact on variables that concern the entire geographical boundary called nation or country.

In macroeconomics emphasis is on aggregate economic variables such as the economy‘s level of employment, total output and income, total money supply, overall government spending, the levels of taxes, investment and saving and so on. As a branch of economics, it examines how resources are organised, controlled and rewarded in various economic activities, as well as how relative prices of goods and services are determined. Any economics study that has to do with sub-aggregate and independent units in an economy is termed microeconomics. Therefore any economics study that is related to how market operates, organisation of firms into industries, public finance by sector and general behaviour of household consumers and producers are embedded in microeconomics studies.

On the other hand, the study of macroeconomics involved the totality of the entire economy. Any study that is related to population, national income, taxation, inflation, aggregate money supply and demand, unemployment, international trade and policies that regulate the workability of the entire economy is covered under macroeconomics. Although, microeconomics pre-empts decision making, but all decision that are made collectively by government are made under macroeconomics framework. Both macroeconomics and microeconomics are important for economic analysis, which are regarded as necessary apparatus of thought.

Business decision

In a nutshell, if an economy is likened to an elephant, the study of the entire elephant is macroeconomics study while, the study of the elephant leg, tusk, and tail are microeconomics studies.

There are certain limitations of macroeconomics analysis and these are as follows

A rise in national income does not mean that individual income has risen. The increase in

national income might be the result of the increase in the incomes of a few rich people in the country. If individual units are similar, aggregation does not present much difficulty. But if microeconomic variables relate to different individual units, their aggregation into one macroeconomic variable may be wrong.

The unit vividly looked at composition of macroeconomics and discusses in details the characterization of the macroeconomic theory, that is, what macroeconomic include and precludes. This unit also looked at composition of macroeconomics and microeconomics concepts and differentiates clearly between the two concepts and discusses in details the characterization of the two.

UNIT 2 BASIC TOOLS OF MACROECONOMICS ANALYSIS

The basic macroeconomics tools imply the instrument through which the study is analysed explicitly to the understanding of the learners.

Understand and have the ability to employ these tools for economic analysis

It has the advantage of making discussion in economics available to a wide audience. Verbal statement consists of words in tape or class room teaching delivery. Graphs are used as a further aid to understanding economic discussion.

The demand curve The supply curve

1.2.1b The figures show the relationships that exist between quantity of a commodity demanded and supplied and the price adjustment.

Equations / Models

An algebraic statement could be made from illustration of demand and supply curves in figure 1.2.1a and 1.2.1b. i.e. people tend to demand more at a low price than at a high price, ceteris paribus.

Some Mathematical Concepts

Variable A variable refers to a quantity that may assume any value in the context of a particular problem. Symbols are often used to denote variables. In economics, the two types of variables often considered are the continuous variable and discrete variable. Some of these may differ by very small amounts, e.g. 3.00036.

The exogenous variable is the one that affects the endogenous variable but is determined from outside the model. Using the population case again, if we hypothesize that the population of Nigeria is determined by the food supply, the endogenous variable is population and the exogenous variable is the availability of food. Food supply, although determined from outside the model, has impact on the population. Notice that population itself is assumed to have no impact on food supply, since population is being explained in the model.

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Functions

We can say that P = f , i.e. the population of Nigeria depends on food supply, or population is a function of food supply.

A Rectangular Coordinate System

Graphs of functional relationships between two variables can be drawn or demonstrated using the rectangular coordinate system . The vertical line, called they y-axis, and the horizontal line, called the x –axis, have divided the space into four quadrants numbers in an anti-clockwise direction as I, II, III and IV. The value of x is generally written before that of y.

IV

Any point in each of the quadrants has coordinates, i.e. numbers representing that point. This is written as A. The coordinates of point B are 2 units from the x-axis and 4 from the y-axis, written as B . As earlier stated, notice that the horizontal coordinate is often written before the vertical coordinates. Can you read off the coordinates associated with points C and D in Fig.

We conclude here that microeconomics and macroeconomics concepts are two ways of looking at the same thing, that is both micro and macroeconomics study the economic activities of every economy, but while one looks at aggregate, the other looks at the individual economic unit i.e. household, businesses . This module discussed the macroeconomics concept in its entirety and relates it to microeconomics to bring a clearer picture between the two.

Discuss with examples

Macro Statics This study unit looks into the meaning of macro statics, macro dynamics and comparative statics analysis. In addition to the analysis of macro statics and macro dynamics, comparative statics also explain a particular phenomenon that stand between time variant and time invariant as discussed hereafter.

At the end of this unit, students should be able to

The size of population, the supply of capital, methods of production, forms of business organisation and wants of the people remain constant, but the economy continues to work at steady pace. «It is to this active but unchanging process», he writes ―that the expression static economics should be applied. As pointed out by Prof. ‖ Such a final position of equilibrium may be shown by the equation.

This macro-static model is illustrated in Figure 1.3.1. Discuss the macro statics concept in relation to time. If there is a change in population capital, techniques of production, forms of business organization and tastes of the people any one or all of them, the economy will assume a different pattern, and the economic system will changes its direction. In a dynamic economy data changes and the economic system takes time to adjust itself accordingly.

According Kurihara, ―Macro dynamics treats discrete movements or rates of change of macro-variables enable one to see a _motion-picture‘ of the functioning of the economy as a progressive whole. The macro-dynamic model is explained in terms of the Keynesian process of income propagation where consumption is a function of the income of the preceding period, i.e Ct = f and investment is a function of time and of constant autonomous investment ΔI , i.e., I = f . The increased investment is shown by the new aggregate demand function C + I + ΔI . But in period t, consumption lags behind, and is still equal to the income at E0.

The curved steps t0 to En show the macro-dynamic equilibrium path.

Yn

Schumpeter described it as ―an evolutionary process by a succession of static models. This method of procedure is known as Comparative Statics. The distinction between static, comparative static and dynamic situation is explained with the help of the accompanying diagram. If the economy is working at situation A where it is producing at a constant rate without any change in the variables, it is a static state which is functioning at a point of time.

Comparative statics, on the other hand, is related to once-over change from point A to point B in which we do not study the forces behind the movement between the two points. Thus comparative statics is not concerned with the transitional period but ―involves the study of variations in equilibrium positions corresponding to specified changes in underlying data. ‖ The Keynesian employment, income and output analysis is based on the theory of shifting equilibrium wherein it compares different equilibrium levels of income. According to Kurihara, Keynes made no attempt to show the process of transition from one position of equilibrium to another.

He simply used comparative statics analysis.

Time

This is comparative statics which compares two static levels of income as against dynamic economics which traces out the path AB, showing increase in income. Its scope is limited for it excludes many important economic problems. There are the problems of economic fluctuations and growth which can only be studied by the method of dynamic economics. Comparative statics is unable to explain the process of change from one position of equilibrium to another.

It ―gives only a partial glimpse of the movements, for we have only the two _still pictures‘ to compare, whereas dynamics would give us a movie‖. We are not sure when the new equilibrium will be established because this method neglects the transitional period. Discuss the comparative statics concept in relation to time. No doubt economic dynamics is the antithesis of economic statics, yet the study of dynamic economics is a necessary adjunct to the hypothetical static analysis to enable economics formulate generalisation.

If economic dynamics is the running picture of the working of the economy, economic static

relates to the _still', the stationary position of the economy. If savings at a point of time are S1 and at another moment time S2, this is once over change which is comparative statics. But if a given rise in savings leads to increase in investment, output, incomes and to a further rise in savings, this sequence of interdependent events of continuous changes is dynamic in nature. Tutor's Marked Assignment iii.

Relationship between Consumption, Saving and Income

Here students are introduced to the concepts of consumption and its determinants. The section explains in general form, what consumption expenditure involves and clearly differentiates consumption function from saving function and the derivation of the former from the latter.

Identify and explain both consumption and saving functions

Derive consumption function from a given saving function.

: Concept of Consumption And Saving

It should be noted that consumption is largely influenced by level of income among other thing. Mathematically, consumption is expressed as a function of disposable income. Meaning that, income saved, is current income not consume. Clearly explain saving concept.

Disposal income is gross personal income less personal income tax. For the simplest consumption function, there are two arguments namely, the non income induced consumption and income induced consumption , disposable income is the main determinant of the level of consumption.

AD = AS equilibriu m

An inspection of columns 3 and 4 in Table 3.1 will reveal that both savings and consumption are positively related to income. That is to say, both of them vary in the same direction as income. Investment of N300 million is autonomous, i.e. given from outside to the economic system. Below this, AD is less than AS, thereby setting forces that tend to reduce national income towards the N2,000 million level.

Note that what really happens when AD falls short of AS is that the income that

Zambans are willing to spend is less than the goods and services produced in the economy. The trend will be a backward movement towards the equilibrium.

The Withdrawal-Injection Approach

Withdrawal refers to the process whereby the effect of some relevant variable leak out of, or is taken away from the income-expenditure stream. Such a leakage tends to reduce the size of the national income. Analysis here will only be based on savings as a withdrawal item. Injection refers to a process by which a variable is introduced, or added to the income-expenditure stream.

Such injection tends to boost the national income and employment. The only injection variable to be used for this analysis is investment. Symbolically, Q = Y = I + S. If some income is saved, it constitutes a withdrawal from the system and if it is invested.

The Algebraic Approach

Consider the equilibrium that Y = C + I. Let the consumption function be written as C = A0 + B1Y, where A0 is autonomous consumption ad B1 is the MPC. Let autonomous investment be written as I = I0. This means that the given investment is fixed at I0. Transpose Y terms to the left-hand side to obtain Y – B1Y = A0 + I0.

B1

Let us take the following numerical illustration.

[...]

N4,400 million It will be seen that the algebraic approach enables the calculation of national income equilibrium in specific terms which can be of immense use in practical policy making. This unit equally looked at concept of classical and Keynesian models and critically appraise each of the model by examining the similarities and the differences in them. While also justifying the relevance of the two models to macroeconomic situations. Examine the inclusion of G as done by Keynes and the impact of that on the Nigerian economy.

income earned not received and income received not earned.

THE CONCEPT OF MULTIPLIER

The scalar is often represented by which can be seen in RHS of equation 4.7 and 4.20. It should be noted that this is often refer to as Income, Government and Investment multiplier. However, when tax is involved the multiplier becomes The multiplier principle.

Consider the components of aggregate demand expressed as

Y = C + I + G + En, where, as defined previously, disposable income consumption expenditure investment expenditure government expenditure net exports, i.e. export less imports. Any increase or decrease in the magnitude of any of the variables in the righthand side of this equation will have some effects on disposable income. More specifically, an increase in either consumption, investment, government expenditure or net exports will have an expansionary effect on income and employment. Conversely, any decrease in any of these variables will have a contractionary effect on both income and employment.

These effects are based on what is referred to as the multiplier principle. `is derived by differentiating the classical and Keynesian model with respect to income, investment and government expenditures.

[...]

The initial change was an increase in investment expenditure depicted as . This change caused an increase in income shown as ΔY. Since consumption expenditure is a component of AE aggregate expenditure increased necessitating in income denoted as ΔY. This sets in motion another chain of reactions until the economy converges to a new equilibrium income level depicted as Y* corresponding to aggregate expenditure AE2.

Draw a diagram to illustrate the concept of multiplier Algebraic Determination of the Multiplier

We will employ equation for the illustration.

Δ**Y =**

Equation 1.16 is the investment spending multiplier. The value of equation 1.16 is the member of times by which a change in investment will be multiplied to obtain the resultant change in income. Alternative Explanation to multiplier concept The multiplier is a number by which an initial change in investment is multiplier to obtain the final effect on the national income . If the increase in income, given the same level of investment, is N1,500 million, the multiplier is 7.5 .

The working of the multiplier: A numerical illustration

If N100 million is invested in the Zamban economy annually, it will give rise to several rounds of expenditure, and each expenditure round will induce yet another expenditure round. Part of this income will be consumed and part of it saved. The part consumed is obtained by multiplying the income by the MPC, i.e. N100 million x 0.75 = N75 million. The part saved is N100 – 75 = N25million or N100 million x MPS =, column 4.

The second period of expenditure is the income of N75 million obtained from increased in consumption. Using the same process of multiplying this by the MPC of 0.75 and MPS of 0.25, the actual values for consumption and savings, respectively, will be found in Period 2, columns 3 and 4. Finally, the process of spending and re-spending will yield an income several times the initial amount. In our case, the ultimate amount will be N400 million.

What is the value of the multiplier in this case?

This gives a clue on how to obtain the multiplier effect of any increase in investment. Simply multiply the change in investment by the MPS turned upside down. in addition, we used numerical analysis for better understanding.

: Full Employment Equilibrium

4.3 In this case, aggregate demand is equal to aggregate supply and full employment equilibrium is Y f* . The economy‘s resources are fully utilized.

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Inflationary Gaps

Recall that the basic thrust of Keynesian economics as discussed earlier is to demonstrate that, in a capitalistic system, the economy can achieve equilibrium at any point within the system. This means that one can talk about full employment equilibrium, less than full employment equilibrium, more than full employment equilibrium. The inflationary gap is the amount by which aggregate demand exceeds aggregate supply at full employment . It is often characterized by an increase in general price levels and constant real output.

This gap can be removed by policies that move AD down to e0 as shown in panel .

Inflationary gap

This gap is sometimes called a recessionary gap and is shown in panel of Fig. It should be noted that the concepts of inflationary and deflationary gaps are rather extreme and simplistic ways of depicting inflationary and deflationary phenomena. in subsequent chapters we shall analyse the monetary and fiscal tools for dealing with these problems. This unit looked at the concept of full employment equilibrium amidst inflationary and deflationary gaps.

The unit further explained through graphical illustration the process that the two gaps involves in a clear cut terms. Explain in a clear term perhaps with graphical illustration what is meant by iii.

UNIT 1: MONEY AND BARTER SYSTEM

Barter Vs Counter Trade Features and Functions of Money This unit introduces the learner to concept of money, its evolution through barter system, it also discuss the problem encountered by the barter system which lead to the evolution of money. Moreover, this unit looks at the relationship between barter systems and counter trade. It equally explained the uses of money as a medium of exchange and discusses its characteristics and functions. The functions perform by modern money cum its qualities offset the problems encountered during the barter systems.

Discuss the problem encountered in the barter system Explain the relationship if any between barter system and counter trade.

Discuss the features and functions of money

This is because people may refuse to accept what is legally defined as money for exchange of goods and services. On this basis, he concludes that legal provisions are necessary but not sufficient to determine things that do or do not serve as money. The Central bank of Nigeria controls the behaviour of money and credit in order to influence the balance of saving and investment expenditure and hence the rate of price level. Therefore, in conclusion money, is defined in economics, is anything that is readily and widely accepted as a medium for exchange of goods and services or in settlement of debts.

This process is too cumbersome and leads to time wastage. The exchange rate problem makes

this impossible under the barter system. The Features of Money The features of money are basically major qualities that anything called money is expected to possess. These features or qualities are otherwise known as attributes or characteristics of money.

This is the reason why high quality papers are used to print paper currency and precious metals are used in minting coins. This will promote general acceptability. The precious metal use for money must be re-coinable when the need arise i. In sum, this unit explored the role of money in every modern economy.

Examine the nexus between the barter systems and counter trade.

Establish relationship between inflation and quantity of money

Because of this nature of trade, a number of limiting problems are inevitable, such problems include double coincidence of wants, no standard measurement, specialization problem, problem of weight, indivisibility of some products, distance and transportation problem. This commodity money include cowries, elephant tusk, hide and skin etc this later led to discovery of precious metals as money the metallic money retain its use value as commodity and still use for exchange of goods and services. What gives such money value and acceptability is their being declared as legal tender by the government.

Examine legal tender in the light of intrinsic value

Under what condition could this be done.

TYPES OF MONEY

Such deposits are held in current account of the customer, and a fee is charged for processing the cheque. Saving deposits are held in savings account and they yield interest for the depositor. Time deposits are held in fixed deposits accounts open for depositors and they yield comparable higher interests. Differentiate between Near Money and Bank Deposit.

: INFLATION AND MONEY

By implication, if the volume of money is greater than the available goods and services, market prices rises unjustifiable and money loses its purchasing power-the loss in the purchasing power of money is otherwise known as inflation. Therefore inflation and money are linked through prices of goods and services that are determined in the market place. Explain the impact of inflation on purchasing power. This unit concludes that advent of fiat money was the beginning of solution to the problem of barter system.

Also this unit explored the types and nature of money and relate inflation to money through the price system. We therefore conclude that inflation majorly affects two functions of money, namely, standard for deferred payment and store of value.

UNIT 4: DEMAND AND SUPPLY OF MONEY

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Explain the motives why people hold money.

SUPPLY OF MONEY

The concept of money supply or money stock refers to the total amount of money in the economy, for purposes of policy various definitions or variants of money supply are adopted in every economy and these vary from one country to the other. Money in circulation outside banking system, it is otherwise refer to as based money, while the broad money or broad definitions include money being used as both medium of exchange and store of value . Here SD and TD mean savings deposit and time deposit. In every country, the Central Bank always state which definitions of money it is adopting at any particular time and for which purpose.

The quantity of money in an economy has direct effect on the price level and therefore on the value of money. Hence, to promote price stability and economic growth, the total money supply is subject to government control through the Central Bank in every modern economy.

DETERMINANTS OF SUPPLY OF MONEY

The determinants of money supply are both exogenous and endogenous which can be described broadly as the minimum cash ratio, the level of bank reserves and the desire of the people to hold currency relative to deposits. Commercial bank reserves consist of reserves on deposits with the Central bank of the country influences the reserves of commercial banks in order to determine the supply of money. The commercial banks are required to hold reserves equal to a fixed percentage of both time and demand deposits. These are legal minimum or required reserves.

The discount rate policy affects the money supply by influencing the cost and supply of bank credit to commercial banks. It is also the interest rate at which commercial banks borrow from the central bank. A high discount rate means that commercial banks get less amount by selling securities to the central bank. The commercial banks in turn raise their lending rates to the public thereby making advances dearer to them.

Thus, there will be contraction of credit and the level of commercial bank reserves. When the bank rate is lowered it tends to expand credit and consequently bank reserves. It should be noted that commercial bank reserves are affected significantly only when open market operations and discount rate policy supplement each other. Otherwise, their effectiveness as determinants of bank reserves and consequently of money supply is limited.

If people are in the habit of keeping less in cash and more in deposits with the banks, the money supply will be large. This is because banks can create more with larger deposits. Changes in business activity can change the behaviour of banks and the public and thus affect the money supply. Hence the money supply is not only exogenous controllable item but also an endogenously determined item.

If the velocity of money in circulation increases, the bank credit may fall even after a decrease in the money supply. The central bank has little control over the velocity of money which may

adversely affect bank credit.

V = velocity of circulation of each unit of money P = average price level Q = real national output The assumptions of the theory are that

The velocity of money in circulation is fixed. The real GNP denoted is fixed in the short – run. The money stock is determined from time to time by the country‘s monetary authorities.

P=

That 5 per cent increase in money stock will cause average price level in the economy to rise by 5 per cent. Since both Q and v are fixed, in the case of Q full employment is assumed. Thus, inflation is conceived as a monetary phenomenon. represent the money velocity which imply number of time money changes hand, it measure how enterprising a nation is.

The weakness of the quantity theory of money lies in the underlying assumptions, especially the assumption of fixed output and fixed velocity of money circulations which are unrealistic. However, the theory provides a guide to the government to regulate money supply along the rate of changes in national output so as to avoid the problems of inflation.

There are various factors that can determine the reason why people hold money at any particular time in an economy and among them we have the following

It should be noted that to a great extend, income level influences the liquidity preference of individual. The time lag between income is received and expenditure takes place also determine the transaction balance or cash balance. Income and expenditure are not done simultaneously, therefore the level of individual transaction influence the amount cash balance held at any point in time. This unit examined the demand for money and supply for money and conclude thus that demand for money is endogenously determine while the supply of money is exogenously determine.

UNIT 5: COMMERCIAL BANK AND CREDIT CREATION ACTIVITY

This unit introduces the students to the commercial banking as a bedrock of all financial institutions and medium through which monetary policy is transmitted to the public. Explain the process of achieving monetary policy through commercial bank Commercial Banking Commercial banks are the key institutional mechanism through which money performs it numerous functions in any economy. It is, therefore, important to examine the specific role of commercial banks in a given economy. This will serve to clarify the process of monetary management.

The commercial bank is also known as deposit money bank because they are retail bank who accept deposit from all and sundry. Commercial banks are also known as fractional banking system because commercial banks create money and that a fraction of deposit is kept to meet the deposit liability. We assume that there are 10 commercial banks in hypothetical economy named Bakare city. This assumption is to enable us deal with a realistic situation where there can be

many banks in an economy.

All commercial banks in Bakare city are required to keep a certain percentage of deposit with them as cash. Specify to be reserve ratio which we shall specify to be 10%.

With the above assumption we are going to trace what happen when Alhaja

Table 5.5.1 shows the process of money creation that starts as Dalat removes this money from her grandmother's pillow for deposit in the commercial bank, which we will call the Bank of the Patriots .

Note: that excess reserve = 1 - R

Chances are high that the numbers will be less than that obtained by the reciprocal of the reserve ratio. In effect, therefore, the actual credit created will be less than the potential limit. Financial intermediation involves credit mobilization and disbursement activity of the banking system. Commercial bank is a money market where short and medium loan are traded.

Commercial banks do not print money they give as loan but rather mobilize deposit from customer and give same to another set of customers . The deposit rate is much lower than the lending rate and the different between the two rates is the gain to the «intermediators», that is, the commercial banks.

SSsSSsssASASSAS which consist of individual household and others Financial intermediation by Commercial Banks

use suitable diagram to explain financial intermediation processes. This unit discussed money creation activity of the fractional banking system and the limiting factors to the activity, it also emphasised on other traditional function of the commercial banks. The unit examine the financial intermediation function of commercial bank and explain from mobilization of funds from the surplus spending unit to disbursement of funds to the deficit spending units on prices called the interest rates. Use suitable diagram to explain financial intermediation processes vi.

Calculate the money that would be created by the fractional banking system with initial deposit of #16,000 and a statutory reserve requirement of 25%.

UNIT 1: MACROECONOMIC POLICY FRAMEWORK

The study shall assess the Explain what is meant by macroeconomic policy framework.

MACROECONOMIC POLICY

Macroeconomic policy refers to program through which government uses policy instrument to regulate or modify the economic affair of the country in keeping with certain objectives. In other words, it ―attempts to assess the behaviour of the economy as a whole and to seek ways in which its aggregate performance might be improved. ‖ These are achieved through certain

instrument and objectives of macroeconomic policy. Its two main instruments are monetary and fiscal policy, and its four major objectives are full employment, price stability, economic growth, and balance of payments equilibrium and recently adjudge fifth objective is equitable income redistribution.

THE FISCAL POLICY

Fiscal policy refers to government deliberate use of budgetary tools to regulate the economic activities. Budget is the annual financial statement of government proposed expenditure and expected revenue. Fiscal activities is the use fiscal tools or instrument to allocate or re-allocate financial resources in an economy within a span of a year, it involves government spending or expenditure and revenue through taxation. This will increase employment opportunities.

Fiscal policy of reduction in government expenditure and or increase in taxes will reduce the disposable income with the consumers. This will reduce aggregate demand and reduce inflationary pressure.

What is fiscal policy and what are the instruments used?

Examine the Nigeria federalism in the light of 811 budget being read every year.

Enumerate and explain reasons why each government must have its own budgets

Explicitly explain what a good budget must contain.

The Macroeconomics Policy Instrument The Macroeconomics Policy Targets

Under this unit macroeconomic policy objective, instruments Full employment Full employment has been ranked among the foremost objectives of economic policy. But there is no unanimity of views on the meaning of full employment. The classical economists always believed in the existence of full employment in the economy. To them full employment was a normal situation and any deviation from this was regarded as something abnormal.

According to pigou, the tendency of the economic system was to automatically provide full employment in the labour market. Unemployment was a normal situation and any deviation from this was regarded as something abnormal. Those who are not prepared to work and the existing wage rate are not unemployed in the pigovian sense because they are voluntarily unemployed. However, no possibility of involuntarily unemployment in the sense that people are prepaid to work but they could not find work.

According to pigou, with perfectly free completion- there will always be at work a strong tendency for wage rate to be so related to demand that everybody is employed‖. However, the classical view of full employment is consistence of the sum amount of frictional, voluntary, seasonal, and structural. Full employment so defined is consistent with frictional and voluntary unemployment. Keynes assumed that with a given organization, equipment and techniques, real wages and the volume of out-put are uniquely co-

related, so that, in general an increase in employment can only occur to the accompaniment of a decline in the rate of wages.

—It means that the test of full employment is when any further increase in effective demand is when increase in effective demand is not accompanied by any increase in output. Since the supply of output becomes inelastic at the full employment level, any further increase in effective demand will lead to inflation in the economy.

Indirect

These Instruments include Open Market Operations, Liquidity Ratios, Cash Reserve ratios, Discount window operations, Expanded Discount Window operations –Dec 2008 – Jul. 2006, Monetary Policy Rate – Dec 2006 to date Table 6.2.1.

[...]

Like monetary policy, fiscal policy could be expansionary or contractionary both are referred to as discretionary policy. A reduction in tax couple with a _fat' government spending imply an expansionary fiscal policy, the opposite is contractionary fiscal policy. Give a solution to inflation using both fiscal and monetary policy ii. Differentiate between macroeconomic policy targets and objectives The five policy objectives discussed above are not always complementary to one another but rather, they conflict.

If a government tries to fulfil one objective, some other moves away. It has to sacrifice one objective in order to attain the other. It is, therefore, not possible to fulfil all these policy objectives simultaneously. Period of high growth are associated with low level of unemployment and period of low growth with rising unemployment.

There is conflict between the goals of economic growth and prices stability. In the long run, where new resources are developed and growth leads to the production of more commodities, the inflationary rise in prices will be checked. But the rise in prise will be there with the growth of the economy and it will be moderate and gradual. One of the objectives of macroeconomics policy in the 1950s was to have full employment with price stability.

But the studies of Philips, Samuelsson, Solow and others in the 1960s established a conflict between the two objectives. These finding are explained in term of Philip curve. Full employment is always related to balance of payment deficit. In fact, the problem is one of maintaining either internal balance or external balance.

If there is a balance of payment deficit, then a policy of reducing expenditure will reduced import but it will lead to unemployment in the country. If the government raises aggregate expenditure in other to increase employment, it will increase the demand for imports thereby creating disequilibrium in the balance of payments. It is only when the government adopts expenditure –switching policies such as devaluation that this conflict can be avoided but that too temporarily.

Examine the relationship between price stability and balance of payment

Proffer policy recommendation Explain how monetary and fiscal policy could be used to achieve both internal and external balance Understand the resultant effect of any policy adjustment.

Internal balance = Consumption +

Only when AD returns to potential output is internal balance restored.

Internal Balance under Fixed Exchange Rate System

An internal equilibrium is achieved at the full employment and stable prices. Marginal Propensity to Import. An increase in g shifts the IS curve to the right, thereby raising the interest rate. Moreover, because the economy is fully employed, real output cannot increased beyond yF.

Thus, an increase in g increases inflationary pressure, thereby raising domestic price, which shifts the LM curve to the left. Thus, along the IE function, government spending and interest rate are directly related. That is, in order to maintain the full employment rate of output, any increase in government spending must be accompanied by a rise in the interest rate. It does not stay put.

The aggregate output demand exceeds the full employment output yF. Explain what is meant by internal equilibrium to an economy ii. Examine the existence of sudden upsurge to an equilibrating economy.

XX = CA

External balance = the right amount of surplus or deficit in the current account. Under fixed exchange rates, governments are not usually free to employ monetary policy. Under floating rates, countries can use both. External Balance – this refers to the Current Account balance.

The country is neither under spending nor overspending its foreign income. For a floating exchange rate, the total balance of payments is always zero. Since the balance of payments is the sum of the current, capital, and financial accounts, saying the current account is in balance then also implies that the sum of the capital and financial accounts are in balance.

BP = X − M + F

Note that when an open economy achieves an external equilibrium, output y is not necessarily at the full employment rate. Explain what is meant by external equilibrium to an economy ii. Examine the existence of sudden external shock to an equilibrating economy. Alternatively, we can say that equilibrium exist both internally and externally if equation equals zero i.e. Y - A = X - M = 0 ----------iii.

The unit survey the concept of internal and external equilibrium and sufficiently explain factor that can bring about disequilibrium and how equilibrium could also be restored through the use

of both fiscal and monetary policy. The unit equally recognized that major imbalance could be brought about through fiscal indiscipline or recklessness and monetary misapplication. The unit review concepts of internal and external balance and reiterate that imbalance or disequilibrium could be as a result of both internal and external shocks and that stability could be restored through application of fiscal and monetary policies.

Concept of Economic Growth

In addition to this, some selected growth theories were analysed and explained. Explain what is meant by Economic growth and Development. The rate of economic growth is measured as the percentage increase in real GDP overtime. Economic growth can equally be defined as increase in a nation‘s output which is identifiable by sustainable increase in real per capita income .

Economic development on the other hand is a sustainable increase in real GDP that implies increased real per capital income, better education and health as well as environmental protection, legal and institutional reforms and an efficient production and distribution system for goods and services . What is Economic Growth and how is it different from Economic The terms growth and development are often misused by laymen to mean the same thing. But this is not so. Todaro contends that growth stimulates improvement in incomes and output while development involves radical changes in institutional, social and administrative structure, as well as in popular attitudes and sometimes even customs and beliefs.

Schumpeter stresses that growth is a gradual and steady change in the long run which comes about by a general increase in the rate of savings and population. Development on the other hand is a discontinuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing. Maddison was of the opinion that the raising of the income levels in rich countries is economic growth. Kindleberger .advances that economic growth means more output while development implies both more output and changes technical and Institutional management by which it is produced and distributed.

It need be stated that growth is a necessary but not a sufficient condition for attaining development. Without growth there cannot be development. But without development, there can be growth. Bakare-aremu defined Economic growth as a continuous increase in National output which is identifiable by sustainable increase in real Per capita income which translates to general wellbeing of an average citizen.

However, when this leads to structural positive transformations then development is implied. « As such development cannot be sustained because diseases, mortality
rate, starvation, misery, and industrial inefficiency cannot be eradicated.

Can there be development without growth?

GDP refers to the market disposable value of output produced within the country i.e. produced domestically. On the other hands, GNP refers to total income occurring to the nation or at the disposal of the nation. Therefore, to obtain the GNP, we subtraction GDP, all incomes that are repatriated abroad to foreign owned factors of production and add all incomes from abroad on

account of the citizens of or residents in the country. What is subtracted is referred to as factors payments to abroad and what is added is referred to as factors income .

GNP = GDP - FP + Fl ……

These are discussed below. This is true not only in relation to their counterparts in rich nations but often also in relation to small elite groups within their own societies. The Gross National Product per capital tend to be very low for most developing countries. It is often used as a summary index of the relative economic well beings of the people in different nations.

The GNP itself is the most commonly used measure of the overall level of economic activity. Also there is relative slower growth rate in the GNP per capita of developing countries when compared to their developed counterpart. Not only these, the absolute income gap between rich and poor nations continues to widen. The level of labour productivity is extremely low compared with those in developed countries.

Older people as well as children are often referred to as an•

Economic/dependency burden in the sense that they are non-productive members of the society and therefore must be supported financially by a country's labour force. The overall dependency burden is more in less developed countries than in developed countries. Therefore, the less developed countries would not only contend with high rates of population growth but they also must struggle with greater dependency burden than the rich nations. Almost 80 per cent are rural based, compared with less than 35 per cent in economically developed nations.

Similarly, 66 per cent of the labour force is engaged in agriculture, compared with only 21 per cent in developed nations. Agriculture contributes about 32 per cent of the GNP of developing nations versus only 8 per cent of the GNP of developed nations. The basic reason for the concentration of people and production in agricultural and other primary production activities in developing countries is the simple fact that at low level of income the first priorities of any person are food, clothing and shelter.

Inadequate Growth in Comparison with Population

If economic growth is not growing significantly relative to population, it may fail to promote economic development. For example, an economic growth of 3 - 4%in comparison with population growth of 10% due to relaxation of immigration law may not enhance development.

Hypothetically, let us assume that the richest people in an economy constitute

10% of the whole population and their income can be increased' by 50%. Imbalance in Sectorial Development The industrial sector, the oil sector among others may be in a country, but when facilities such as housing, health, water, law and order, among others are not developing, may not witness development. Moreso, if the per capital increases from expansion in the oil and industrial sectors, not cannot be said to have occurred because poor health could lead to dehumanising ailments such as typhoid, tuberculosis, etc. which hinders development.

Environmental Degradation and Ecological Disturbances

When there is ecological disturbance such as blockage of water canals, etc., it makes it impossible for water to enter and this way cause flooding. Cutting of too many trees cause desert encroachment. We must be compassionate, be objective, not violent, seek for intellectualism, etc. We must be considerate to our e must not be impatient. Man must be kind hearted and discipline himself.

All these cannot promote development. Economic Development Dependence In international trade relations, the third world is worse off as they are exporters of primary products which are highly income inelastic while the manufactured products they import have high income elasticity. Thus, the price of primary products does not increase rapidly and at times faces price fluctuation. What are the reasons why economic growth may not lead to economic The Core Values and Objectives of Development.

What constitutes the good life is a question as old as philosophy, one that must be periodically re-evaluated and answered afresh in the changing environment of world society. when any of this is absent or in critically short supply, a condition of absolute underdevelopment exist a basic function of all economic activity , therefore is to provides as many people as possible with means of overcoming the helplessness and misery arising from lack of food , shelter, health, and protection. To this extent, we may claim that economic development is a necessary condition for improvement in the quality of life that is development. Without sustained and continuous economic progress at the individual as well as societal level, the realization of the human potential would not be possible.

one clearly has to «have enough in order t be more.» rising per capital incomes, the elimination of absolute poverty, greater employment opportunities, and lessening income inequalities therefore constitute the necessary but not the sufficient condition for development. Due to significance attached to material values in developed nations, worthiness and esteem are nowadays increasingly conferred only on countries that posses economic wealth and technological power those that have «developed». As Denis Goulet put it, «Development legitimized as a goal because it is an important, perhaps even an indispensable, way of gaining esteem. » The concept of humane freedom should also encompass various component of political freedom, including, but not limited to personal security, the rule of law, freedom of expression, political participation, and equality of opportunity.

SOME BASIC INDICATORS OF DEVELOPMENT

The PPP rates gives a better sense of the amount of goods and services that could be bought evaluated at U.S. price and suggest that real U.S. Life expectancy is the average numbers of years newborn children would live if subjected to the mortality risks prevailing for their cohort at the time of their birth. High fertility can be both a cause and consequence of underdevelopment, so the birth rate is reported as another basic indicator. Table 7.2.1 shows these data for low -, lower-middle -, upper-middle-, and upper-, income country groups. NOTE that in addition to big differences across these income groupings, the low income countries are

themselves a very diverse group with greatly differing development challenges, as the differences between India and the DRC illustrate.

While nearly three - quarters are undernourished in the DRC, about one fifth are undernourished in India of every 1,000 live births 205 of these children will die before their fifth birthday in the DRC, compared with 75 in India. And the birth rate is about twice as higher level of both male and female literacy than Indian does.

ACHIEVERS EDUCATIONAL CONSULTANT 08141710097

NATIONAL OPEN UNIVERSITY OF NIGERIA
DEPARTMENT OF ECONOMICS
FACULTY OF SOCIAL SCIENCES
2018_2 EXAMINATION

COURSE TITLE: MACROECONOMIC THEORY I
COURSE CODE: ECO 341
UNITS: 3
TIME ALLOWED: 3 HOURS
INSTRUCTIONS: ANSWER ANY FOUR (4) QUESTIONS. ALL QUESTIONS CARRY EQUAL MARKS

1. Discuss the following concepts **3.5 Marks each**
Continuous Variable
Discrete Variable
Independent Variables
Exogenous Variables
Endogenous Variables

2a. Define the term Multiplier **2.5 Marks**

2b. Given that $Y_e = \frac{a - bT_o + I_o + G_o}{1 - b + bt}$

Using the quotient rule, determine:

i. The Investment multiplier **7.5 Marks**

ii. The Tax multiplier **7.5 Marks**

Show your workings

3. List and discuss 5 factors affecting the inducement to invest **3.5 Marks each**

4. Discuss the following concepts
National Income
Gross Domestic Product
Gross National Product
Economic Recession
Real Income
Equilibrium

Leakages **2.5 Marks each**

5a. Calculate the National Income Equilibrium Y_e, given the following below C = a + bY_d

$Y_d = Y - T$

$T = T_o + tY$

$I = I_o + rY$

$G = G_o + gY$

Show your workings **7.5 Marks**

5b. List and explain the Rostow stages of growth **10 Marks**

6a. Explain the following

The classical theory of interest rate **4 Marks**

The loanable fund theory of interest rate **6 Marks**

6b. i. What do you understand by the term investment? **5 Marks**

ii. Prove mathematically that savings equal investment **2.5 Marks**

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