

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

COURSE CODE: BFN302 CREDIT UNIT: 3

COURSE TITLE: Monetary Theory & Policy

TIME ALLOWED: 2^{1/2} 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

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 N10m, Investment N50m, Government Expenditure N 100m, Export N800m Import N300m.
 - (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 N50billion for a fiscal year with an expected revenue of N45billion. 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
 (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)