924

Ollscoil na hÉireann, Gaillimh
National University of Ireland, Galway

Semester II Examinations, 2004/2005

Exam Code(s)	OMA1, 3BA1, 3BC5, 3BC6, 3BC1, 3FM2, 4BA4, 4BA8, 4BC2, 4BC3, 4BC4, 4BC5
Exam(s)	M.A. Qualifier, B.A., B.A. (ESS), B.A. (PSP), 3rd B.Sc. in Financial Maths. and Econ., B.A. International, B. Comm., B. Comm. (Language)
Module Code(s)	EC 385
Module(s)	Advanced Economic Theory
Paper No.	1
Repeat Paper	Special Paper
External Examiner(s)	Professor Vincent Munley
Internal Examiner(s)	Mr. Brendan Kennelly Dr. Gerald Pech

Instructions: Answer 2 questions from section A
Answer 2 questions from section B

Duration	2 hours
No. of Answer books	
Requirements:	
Handout	
MCQ	
Statistical Tables	
Graph Paper	
Log Graph Paper	
Other Material	
No. of Pages	1
Department(s)	Economics

Examination in Advanced economic theory (EC385)

You have to do two parts: A AND B.
PART A: answer any TWO of the three questions of this part.
PART B: answer any TWO of the three questions of this part.

PART A: Microeconomic theory
Choose TWO of the following THREE questions:

1) Derive the Nash-equilibrium for an oligopolistic market with heterogenous goods and price (Bertrand) competition. Highlight the strategic interdependence in such a market and the importance of the heterogeneity assumption. What form would a collusive arrangement take and how could it be sustained?

2) Explain how the demand revealing mechanism can be used to determine the efficient provision level of a public good. Use a graph to illustrate. What are the theoretical and practical problems of implementing such a scheme?

3) Compare Borda count and pairwise majority voting in terms of of stability and independence of irrelevant alternatives. Construct examples to illustrate.

Part B: Macroeconomic theory
Choose TWO of the following THREE questions

A) Consider the monetary policy problem of a government which wants to influence national income but which also dislikes inflation. Assume that national income depends positively on unexpected inflation (i.e. the Lucas supply curve relationship holds). What dilemma does this government face? Use a graph to illustrate. What inflation rate would the government choose if it were able to precommit to a monetary policy rule? Why is precommitment a problem?

B) How does new Keynesian theory explain nominal price rigidity? Develop and graphically illustrate an argument to show how the effects of rigidity can be small on the micro level and yet be large on the macro level. Shortly review the critique of the approach.

C) Explain the AK model of economic growth. How does it differ from the Solow model. What is the improvement in terms of its ability to explain empirical regularities?