

*Ollscoil na hÉireann, Gaillimh*  
*National University of Ireland, Galway*  
**Semester I Examinations 2005 / 2006**

GX 2124

**Exam Code(s)** 3BA1, 3BA5, 3BA6, 4BA4, 3BC1, 4BC2, 4BC3, 4BC4,  
4BC5, 3FM1, 1EK1, 1OA1, 1EM1  
**Exam(s)** B.A., B.A. (ESS), B.A. (PSP), B.A. (Int'l), B.Comm.,  
B.Comm. (Language), 3<sup>rd</sup> B.Sc. Fin. Maths. & Econ., H.Dip.  
Econ.Sc., Occasional, Erasmus

**Module Code(s)** EC349  
**Module(s)** Economic Theory

Paper No. 1  
Repeat Paper

**External Examiner(s)** Professor Vincent Munley  
**Internal Examiner(s)** Mr. Brendan Kennelly  
Ms. Eithne Murphy  
Dr. S. Raghavendran

**Instructions:** Answer both Sections A and B. Please follow instructions  
carefully.

**Duration** 2 hours.  
**No. of Pages** Cover Page + 3  
**Department(s)** ECONOMICS  
**Course Co-ordinator(s)** E. Murphy & S. Raghavendran

**Requirements:**

MCQ  
Handout  
Statistical Tables  
Graph Paper  
Log Graph Paper  
Other Material

## Section B

*Answer any two in Section B*

*Max Marks: 50*

- 1 (a) The neoclassical theory of choice under conditions of scarcity presumes universal application. The structure of the different problems and the nature of the solution are very similar. Show that this is the case with any two examples where agents are assumed to be allocating scarce resources in such a way as maximises an objective (or utility) function. [15]  
  
(b) According to the neo-classical theory of labour supply, the labour supply curve could be positively sloped or negatively sloped. Explain why this is the case and the assumptions regarding work that underpin the neo-classical theory. [10]
- 2 (a) Explain and illustrate (using the tool of the Edgeworth Box) the conditions that must hold if Exchange Efficiency is to hold. [10]  
  
(b) Show how if markets are perfectly competitive, rational utility maximising behaviour results in Exchange Efficiency. [5]  
  
(c) Give an example of a market situation where the First Welfare theorem would not hold and why. [5]  
  
(d) What is the Second Welfare theorem and what are its implications for how issues of distribution should be tackled? Are there any practical obstacles to the separation of efficiency and distribution? [5]
- 3 (a) What is the fundamental difference between the old style Welfare theory of Jeremy Bentham versus the new style theories of Robbins and Scitovsky and why would the latter provide a stronger ideological defence than the former for conservative welfare policies? [5]  
  
(b) Old and new welfare theories were similar in terms of how they evaluated individual human welfare. Critique the preference satisfaction approach to welfare and compare it with agency conceptions of human wellbeing. [10]  
  
(c) Describe and critique different ethical criteria that could be used to evaluate economic processes and outcomes. [10]
- 4 (a) Routines are to institutional theory what optimization is to neo-classical theory. What do theorists mean by routines and what are the environmental and behavioural bases for this theory. [5]

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(b) Evolutionary theories explain changing technologies and the dynamics of capitalism in a manner that is in stark contrast to the neo-classical view. Discuss. [10]

(c) What is meant by path dependence, how does it occur and what are its implications for the efficiency of successful technologies. [10]

- 5 Minimum wage research has come to be seen as a test of the applicability of neo-classical economic theory to the determination of wages and employment. Why is neo-classical theory so challenged by empirical research whose results show **no** negative relationship between the introduction of minimum wages and employment? [25]