



University of the  
West of England

## Bristol Business School

Academic Year: 07/08  
Examination Period: January

**Module Leader:** Paul Dunne  
**Module Code:** UMEN4N-15-M  
**Title of Module:** Economic Theory and Applications

**Examination Date:** 10 January 2007  
**Examination Start time:** 13:30  
**Duration of Examination:** 2 Hour(s)

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### Instructions to Students:.

Answer three questions in all. You must answer at least one question from section A and at least one question from section B.

All questions carry equal marks.

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### Materials supplied to the student will be:

Number of Examination Booklets (+ any continuation booklets as required) per Examination	1
Number of Pre-printed OMR (Multiple Choice Answer Sheet)	0
Number of sheets of Graph Paper size G3 (Normal)	0

### Additional Instruction to Invigilators:

Calculators May be used subject to University regulations	Yes
Students allowed to keep Examination Question Paper	No
Material supplied by student allowed (must be collected with answer booklet) please specify:	No
Additional Specialised Material :	

Treasury tags & adhesive triangles will be supplied as standard

**Answer three questions - at least one question from section A and at least one question from section B.**

### **Section A**

#### **Question One**

A Consumer has a utility function  $u = x^\alpha y^\beta$  with  $\alpha + \beta = 1$

- i. Derive their Hicksian demand functions (20%)
- ii. Derive their expenditure function (20%)
- iii. Derive their Marshallian demand function (20%)
- iv. Derive their indirect utility function (20%)
- v. Explain how all of these functions are interrelated (20%)

#### **Question Two**

What is meant by a backward bending supply curve for labour and how can it arise? Can a wage schedule which depends on hours worked overcome the backward bend?

#### **Question Three**

Given the following production functions:

$$\begin{aligned}F(K,L) &= A K^\alpha L^\beta \\F(K,L) &= c + \alpha K + \beta L \\F(K,L) &= \min[ K/\alpha + L/\beta ]\end{aligned}$$

- i. Identify whether these functions show increasing, decreasing or constant returns to scale (50%)
- ii. Derive the SRTC function, ATC, AVC and MC (50%)

#### **Question Four**

Explain the Walrasian and Marshallian adjustment processes and discuss their implications for market behaviour.

#### **Question Five**

“Game theory provides an invaluable way of understanding oligopolistic behaviour”. Discuss giving a detailed exposition of at least one model.

## **Section B**

### **Question Six**

Explain and discuss the opposing positions that are being reconciled in the so-called ‘new consensus macroeconomics’.

### **Question Seven**

Explain the implications for aggregate supply of combining ‘rational expectations’ with ‘market clearing’.

### **Question Eight**

“Unions cause high inflation and controlling their power is essential for controlling inflation”. Discuss.

### **Question Nine**

“Involuntary unemployment will only be found in capitalist economies characterised by non-perfectly competitive market structures”. Discuss.

### **Question Ten**

“Endogenous growth models add little to the basic neoclassical exogenous growth models”. Discuss.