



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)

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.

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:

$$F(K,L) = A K^\alpha L^\beta$$

$$F(K,L) = c + \alpha K + \beta L$$

$$F(K,L) = \min[K/\alpha + L/\beta]$$

- 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.