RESEARCH DEGREE PROGRAMME IN ECONOMICS

Term-End Examination

December, 2015

REC-002 : ECONOMIC THEORY

Time : 3 hours   *Maximum Marks : 100*

Note : *Answer the questions from each section as per instructions.*

SECTION A

*Answer any **two** questions from this section.*   *2×20=40*

1. Consider the utility function $u = q_1^{\alpha} q_2^{\beta}$. Let prices be p_1 and p_2 and income be m.

    Derive

    (a) the indirect utility function,

    (b) the expenditure function.

2. State the Arrow Impossibility Theorem. Sketch a proof.

3. Differentiate between a static game of complete information and a static game of incomplete information. Explain the basic equilibrium concepts relevant for these games.

4. Discuss the overlapping generations model.

SECTION B

*Answer any **five** questions from this section.*   5×12=60

5. What is a social welfare function ? Compare the Bergson social welfare function and the Arrow social welfare function.

6. Explain in what ways decision-making under uncertainty differs from that under certainty. How does the situation change, if decision makers can insure against uncertainty ?

7. What is a cooperative game ? Discuss the concepts of characteristic function and core.

8. Explain Walras' Law. Give a simple proof of the existence of general equilibrium under exchange.

9. Discuss Real Business Cycles. In what way can the Real Business Cycle Theory be considered an extension of the Classical Theory ?

10. Explain the following :
    (a) Shephard's Lemma
    (b) Profit Function

11. What is asymmetric information ? Explain how signalling occurs under a situation of asymmetric information.

12. What is a money demand function ? Explain the cash-in-advance model and differentiate it from money in the utility function model.