RESEARCH DEGREE PROGRAMME IN ECONOMICS

00264

Term-End Examination

June, 2018

REC-102 : ECONOMIC THEORY

Time : 3 hours   *Maximum Marks : 100*

Note : Answer the questions from each section as directed.

SECTION A

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

1. Explain the concept of Nash equilibrium, bringing out its relationship with dominant strategy equilibrium. Explain how Nash equilibrium is refined in sequential games of complete information.

2. Discuss the structure of the overlapping generations model. In what way is this model different from the Ramsey-Cass-Koopmans model ?

3. Consider the utility function $u = q_1^\alpha \; q_2^\beta$. Let prices of q_1 and q_2 be p_1 and p_2 respectively. Let the consumer's income be m.

   Derive

   (a) The indirect utility function

   (b) The expenditure function

4. Prove the existence of an equilibrium set of prices in a system of general equilibrium under pure exchange. State carefully the assumptions to be made for the proof.

SECTION B

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

5. State and prove Hotelling's Lemma.

6. What do you understand by rational expectations ? Differentiate between rational and adaptive expectations. Briefly discuss the new classical macroeconomic model under rational expectations.

7. Explain the concept of adverse selection with the aid of an example. How does adverse selection differ from moral hazard ?

8. Explain the process of decision making by a rational economic agent under conditions of uncertainty.

9. Discuss the New Keynesian approach to macroeconomics. In what way is this approach different from the Standard Keynesian approach ?

10. Discuss second-degree price discrimination by a monopolist. How is it different from first-degree and third-degree price discriminations ?

11. Explain the following :

  (a) Slutsky equation

  (b) Roy's identity

12. Explain the following concepts :

  (a) Shapley Value

  (b) The Core

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