

SAMPLE ONLY

DEPARTMENT OF ECONOMICS
SAN JOSE STATE UNIVERSITY
MASTER'S COMPREHENSIVE EXAMINATION

DECEMBER 3, 2004
6:30 P.M. TO 9:30 P.M.
PROCTOR: J. HUMMEL

INSTRUCTIONS:

1. Answer ONLY the specified number of questions from the options provided in each section. Do not answer more than the required number of questions.
2. Your answers must be on the paper provided. No more than one answer per page. Do not answer two questions on the same sheet of paper.
3. If you use more than one sheet of paper for a question, write "Page 1 of 2" and "Page 2 of 2."
4. Write ONLY on one side of each sheet using only pen. Answers written in pencil will be disqualified.
5. Write ----- **END** ----- at the end of each answer.
6. Write your 4-digit identification number in the upper right-hand corner of each sheet of paper.
7. Write the question number in the upper right hand corner of each sheet of paper.

Section 3: Applied Economics—Answer Any Two Questions.

3A. This is a several part question involving the capital asset pricing model. (a) Define market risk and non-market risk. How is market risk measured using the capital asset pricing model? (b) Does the capital asset pricing model say that both types of risk receive higher returns? What does this model say about the relative returns to both types of risk? (c) Assume that empirical studies show that both types of risk are rewarded equally, i.e. the more of either type of risk the higher the rate of return. If this is expected to hold in the future, what strategy can an investor take to "beat the market"?

3B. First, define market power in words with the aid of an example. Second, pick four of the following paired concepts. For each choice write a brief essay comparing the two items with each other (e.g., definitions, applications, examples, etc.) and explaining how they relate to the issue of market power:

- (a) Rothschild Index vs. Lerner Index (diagrams please).
- (b) Herfindahl-Hirschman Index vs. Concentration Ratio.
- (c) product market vs. geographic market.
- (d) barriers to entry vs. barriers to exit.
- (e) product differentiation vs. standardized product (diagrams please).
- (f) raising rivals' cost vs. exclusive dealing.

3C. Show how the incidence on buyers and sellers of an ad valorem tax on a competitive industry is affected by the price elasticity of demand and supply. Then show, with the aid of some math, how the dead weight loss of an excise tax on a competitive industry is affected by: (a) the amount of the tax and (b) the price elasticity of both supply and demand.

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3D. Offer guidelines for the courts in deciding between the following liability rules: (a) strict liability, (b) negligence with contributory negligence defense, and (c) strict liability with contributory negligence defense.

3E. Explain the difference between absolute advantage and comparative advantage in a Ricardian model (with linear production possibilities frontiers).

3F. Explain why some nations are rich and others are poor. Specifically:

- (a) What are some theories that fail to explain countries' differing economic performance?
- (b) What policies has the World Bank attempted to use to promote third world development and why have they failed?
- (c) What type of institutional environment is necessary to promote development and why?

3G. Explain how you would carry out a cost-benefit analysis of a project if you have the demand functions for the products produced by the project and the supply functions for the resources required in the building and operation of the project. Be sure to define:

- (a) social costs and social benefits,
- (b) the discounting process, and
- (c) the criterion for determining whether the project is worthwhile.

Also illustrate what "double counting" would be and establish whether the jobs created in building and operating the project are benefits or not.

3H. Describe the efficiency wage model of unemployment. Be sure to explain the impediment(s) to market clearing.

3I. Explain the role of Say's Law and price flexibility in classical Macroeconomic theory.