

SAMPLE ONLY

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

MAY 6, 2005
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. Explain the nature and significance of Fiscal Impact Analysis. Suppose a housing development is proposed in an area. Given the builder's schedule of housing construction (number of houses, type, value) explain how the fiscal impact of the project would be determined. If the project had a negative fiscal impact what implication would that have for the authorities who have the power to approve or disapprove the project?

3B. With the aid of diagrams contrast the response of a monopoly to an excise tax with that of a competitive industry, assuming linear demand and constant per unit cost. Suppose we postulate a constant elasticity demand, will there be any difference in the response? Explain your answer.

3C. First, define market power in words with the aid of an example. Second, pick three 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.

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3D. 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?

3E. This is a several part question involving the capital asset pricing model.

- (a) How does the CAPM define risk? How is it measured?
- (b) Applying the CAPM, how should one manage risk without lower potential returns? You must show a graph.
- (c) What are some of the shortfalls of the CAPM model?

3F. Describe the basic elements of the classical theory of contract. Then, present the basic objections to the classical theory.