

2012  
[July]  
ECONOMICS

**Recent Advances in Economic Theory**

Full Marks: 75; Time: 3 hours

*The figures in the margin indicate full marks for the questions*

Answer any **five** questions

Q.1. Define normal form game. Show with an appropriate example how iterated elimination of the strictly dominated strategies provides solution to a static game. Does it always yield the best possible solution to the game? Explain your answer. **2+7+6**

Q.2. (a) Distinguish between static and extensive mode game. Also define Nash equilibrium and explain its properties. **4**

(b) The pay –off matrix of two fishermen in accordance with their strategies to adopt for fishing in a common lake is described below:

		Player-1	
		Restraint	No Restraint
Player-2	Restraint	16, 16	20, 4
	No Restraint	4, 20	10, 10

Find out the equilibrium solution and interpret the result. **6**

(c) How can you explain the Stackelberg leadership model in a game theory framework? **5**

Q.3. Give a brief outline of the micro-foundation of macro economics as an alternative to the traditional macro economic analysis. **15**

Q.4. Describe monetarist’s approach to stabilisation and policy towards full employment. Also describe the Lucas critique to monetarism **6+9**

Q.5. What does Tiebout mean by “voting on your feet?” How does the Tiebout model explain residential location patterns? **15**

Q.6. Explain Samuelson’s pure theory of public expenditure and show how he poses the problem in terms of general equilibrium. **15**

Q.7. What are interjurisdictional externalities? What problems do their existences create for a federal system? **15**

Q. 8. How will shares in the finance of public goods vary in a model of efficient voluntary cooperative supply of such goods? **15**