

General Exam in Political Economy (Minor)
Autumn 2012

Instructions:

You have 6 hours to complete this exam. Answer a total of three questions from below, one from each of the three sections. Please rely on different substantive literatures in answering different questions. Please also avoid overlap in terms of substantive literatures you used in your major exam. The exam is open-book. Good luck!

Section I (choose 1 of 3):

Question I.1

Consider a formal model of a society consisting two types of individuals: the rich with (fixed) income y_r and the poor with (fixed) income y_p . Normalize the size of the population to be 1. Suppose fraction $r < .5$ of the population is rich, and let the mean income be y_m . The government in this society has the ability to raise money by levying a tax rate t . The government can expend money it raises by offering uniform lump-sum benefits to its people.

1. If the rich hold proportion θ of the wealth, then what is y_r ? What is y_p ?
2. If there is no deadweight loss, what is the government's budget constraint? If there is a deadweight loss of $C(t) = .5t^2$, what is the budget constraint?
3. Consider the case without deadweight loss. What is the preferred tax policy of a rich individual? What is preferred tax policy of a poor individual? Would you answer be different if there were a deadweight loss? Why or why not?
4. Label the preferred policy of the poor individual as t_p^* . What are the comparative statics of t_p^* (assume deadweight losses)? Provide a substantive interpretation for each.
5. Under majority rule, what would the tax rate be? Does the assumption about deadweight loss matter? Explain how and why you got your answer.
6. What reasons should one use when deciding whether or not to include an assumption like deadweight loss in a model?

Question I.2

	L	R		L	R		L	R
T	0,0,3	0,0,0	T	2,2,2	0,0,0	T	0,0,0	0,0,0
B	1,0,0	0,0,0	B	0,0,0	2,2,2	B	0,1,0	0,0,3
	A			B			C	

Consider the three player game depicted above. In this game, player 1 chooses a row (T or B), player 2 chooses a column (L or R), and player 3 chooses a table (A, B, or C).

1. What are the dominated strategies? Is there a dominance solvable equilibrium? Why or why not?
2. Is there a pure strategy Nash equilibrium? If so, what is it? If not, why isn't there one? Show your work and explain your reasoning.
3. Suppose that players 1 and 2 can coordinate their actions, that is, that they can collude to choose their actions together with commitment. Should they include 3 in their collusive behavior? Why or why not? Would player 3 want to be included? Why or why not?

Question I.3:

William Riker once called politics “the truly dismal science” on the basis of his claim that equilibria are so rare that one should essentially give up the quest. Yet, the concept of equilibrium remains central to research in political economy.

1. What is the concept of equilibrium and why is it important? Discuss some of its important meanings using examples from political science literature.
2. Evaluate Riker’s argument. Why and how does he reach such a ‘dismal’ conclusion? And, what are the implications of this claim for the prospects of a science of politics?
3. Consider the ‘Folk theorem.’ What is this theorem and what are its implications for political economy research, and for Riker’s claim, if it is correct?

Section II (choose 1 of 3):**Question II.1**

How does rational choice theory explain the creation and design of political institutions? Give three examples from the literature of rational choice explanations of political institutions and describe how they are distinct from other approaches or explanations. What are some weaknesses or limitations of applying rational choice theory to the study of political institutions?

Question II.2

Much research in Political Economy begins with the assumption of rationality.

1. What does this assumption entail for individuals?
2. Under what conditions are these assumptions more or less plausible?
3. Is there an alternative to rational choice for individual decision-making?
4. Evaluate both the critiques of this approach that have been advanced in contemporary research, and the response by proponents of rationality with regard to the most important goals of social science research. Which side is more persuasive, and why?

Question II.3

One of the claims of scholars of political economy is to provide “micro foundations” for macro political economic outcomes such as democracy, inequality, redistribution, growth, etc.. Select one such macro-level outcome and discuss the extent to which scholars have been successful in fulfilling this ambition. In doing so, evaluate the strengths and limitations of their efforts and point to what may be a promising approach within this research.

Section III (choose 1 of 3):

Question III.1

Once upon a time, political economists talked about ‘national models of capitalism’, which were derived from historically distinctive patterns of state- and market-building. In these accounts, class conflict, state action and even historical contingency were crucial in accounting for patterns of institutional creation, maintenance and change. In the past fifteen years, however, the increasingly prominent Varieties of Capitalism (VoC) framework has argued for collapsing our models of capitalism down to two: ‘liberal’ and ‘coordinated’ market economies. In this new firm-centered approach to comparative capitalisms, the old emphasis on political conflict as the driver of patterns of institutional change and economic adjustment has been replaced by a relatively apolitical focus on the firm. Economic institutions, VoC argues, exist primarily to solve firms’ coordination problems.

Write an essay that evaluates what has been gained, and what has been lost, in the analytic shift in CPE from ‘national models’ to VoC. For example, to what extent has the VoC’s focus on firms and on institutions as coordinating mechanisms improved our capacity to analyze the dynamics of institutional change and economic adjustment in the advanced economies? Are states and labor still relevant actors, or is it appropriate to downplay their importance? Although your essay should discuss about the pros and cons of each approach, please be sure take a stand.

Question III.2

Of late, the Euro Area is experiencing troubles. What were the arguments in the literature that predicted problems for the Euro Area? What can be done about them?

Question III.3

What are the distributive consequences at the domestic level of economic globalization? Who wins and who loses? Build on relevant scholarship and offer specific empirical examples.