

**Candidacy Exam in Political Economy**  
**Autumn 2007**

**Instructions:**

You have **6 hours** to complete this exam. Answer a total of **3 questions** from below, of which at least one question must come from each section. The exam is open-book.

**Part I. Questions 1-4**

1. You are the new sheriff in town. The old sheriff was trying to crack down on two criminals using the prisoners' dilemma, but must have been doing something wrong. Every week he was pulling in the two criminals and forcing them to play the following game, shown in its normal form; but they cooperated with each other every time.

		Player 2	
		c	d
Player 1	C	(5,5)	(-15,15)
	D	(15,-15)	(-5,-5)

- a. You have two deputies. One argues that you should adopt a tougher approach, bringing the two criminals in every day instead of every week. The other suggests that, instead, you should bring them in once a month. Based on the logic of the prisoners' dilemma, which of these deputies offers the more promising approach?
- b. You conduct some background investigations and assess the daily discount rate for each criminal at  $\delta = 0.95$ . Based on that information, you decide to bring in the criminals every  $t$  days. For what range of  $t$  will you have an effective policy to break up this crime ring? Interpret your results.

2. Choose four of the following concepts. Define and discuss their significance for the study of political economy.

Folk theorem  
Uncovered set  
Chain store paradox  
Pareto optimality  
Dominant strategy equilibrium  
Black's theorem  
Sophisticated voting  
Path dependence  
Nash equilibrium  
Globalization  
Core  
Free-rider problem  
Shapely value  
Asset specificity  
Transaction costs

3. In his book, *An Economic Theory of Democracy*, Anthony Downs employs the median voter theorem developed by Duncan Black to show that it is a dominant strategy for candidates to converge to the median in two-candidate elections. First, prove this result. Second, discuss some of the subsequent theoretical developments that have built upon Downs. This may include, for instance, the study of spatial preferences, ideology, or political party competition. What, in your view, is the enduring contribution of Downs' book?
4. One of the ambitions of some of those who claim to be political economists is to provide "micro foundations" for macro political-economic outcomes. Select one such outcome (for instance, inflation, strike rates, economic growth, central bank autonomy, etc.) and discuss the extent to which you think researchers have been successful in fulfilling this ambition, the strengths and limitations of their efforts and what lessons we have learned from them.

## **Part II. Questions 5-8**

5. The literature on the aggregation of individual preferences through majority rule at first identified two pitfalls in the distribution of individual preferences making the derivation of policy outcomes from voters' preferences fundamentally problematic: absence of single-peaked preferences or issue multi-dimensionality. Subsequently, authors have resorted to two distinctive concepts to deflate these foundational problems: institutionalism--the claim that the theoretical solution to problematic preference distributions is provided by institutions, whose role is to allocate agenda setting power and determine voting procedures--, and information

and ideology--the claim that poor information and ideology constrain the initial distribution of preferences in a such way as to make aggregation unproblematic. Present the fundamental problem, develop the two alternatives, and compare and contrast their relative advantages and shortcomings.

6. How successfully have microeconomic explanations of actors' behavior been applied to understanding significant issues in international political economy? Examining a specific question in IPE, cite specific examples of research that has more or less successfully integrated game theory into the study of cooperation or conflict in the international arena.
7. There are currently two distinctive approaches to the study of institutions: the political economy approach, which treats institutions as responses to commitment or uncertainty problems, and "historical institutionalism" approach, which emphasizes institutional change. Compare and contrast the two approaches. Are there no possible bridges conceivable between the two approaches?
8. Discuss the emerging literature on the impact of international factors (broadly grouped under the label 'openness') on domestic economic policy-making. Pay particular attention to explicating the different causal mechanisms purported to connect 'openness' to policy-making, and to evaluating the empirical evidence for these mechanisms. (Hint: you might wish to begin by defining what is meant by 'openness'.)