



**School of Economics,
University of the West of England,
Bristol**

**Masters Programme Module: Economic Theory and Applications
Assessed Coursework 2007-8**

**TO BE HANDED IN TO THE RELEVANT BOX NEAR BBS RECEPTION BY 10th
JANUARY 2008**

Answer one question from each section. Answers should be less than 2000 words with a word count provided on the cover page.

Section A

Question 1.

- a) Explain the terms “Hicksian demand function” and Marshallian demand function” and explain how they are related to each other.
- b) For the utility function $U = xy$ and the budget constraint $M = p_y y + p_x x$
 - i. Solve for the Marshallian demands and find the indirect utility function
 - ii. Find the expenditure function
 - iii. Use Roy’s identity to solve for the Marshallian demands
 - iv. Use Shepherd’s lemma to find Hicksian demands and confirm that at the maximised utility they are equal to the Marshallian demands

Question 2.

Compare and contrast Walrasian and Marshallian market equilibrium adjustment processes. What are the implications for market adjustment of considering expectations?

Question 3.

Discuss the value of game theory to the understanding of oligopolistic markets.

Section B

Question 3:

Examine the role of (a) expectational errors AND (b) sticky prices in the derivation of an upward-sloping aggregate supply curve.

Question 4:

Show how a central bank with an inflation target reacts to an inflation shock in the IS-PC-MR model. How would you modify the reaction in the model to show differing degrees of inflation aversion?

Question 6:

“Inflation can only be controlled through higher levels of unemployment” Discuss.