

UNIVERSITY OF WARWICK

Summer Examinations 2015/2016

Topics in Applied Economics 1(a)

Time Allowed: 2 hours plus 15 minutes reading time during which notes may be made (on the question paper) but no answers may be begun.

Answer **FOUR** questions, including (i) **TWO** short-answer questions and **TWO** long-answer questions and (ii) at least **ONE** question from **EACH** section. The paper consists of 3 Sections, one for each Topic. Each Section contains one short-answer question (worth 15 marks) and one long-answer question (worth 35 marks). Answer Section A questions in one booklet, Section B questions in a separate booklet; and Section C questions in a separate booklet.

Approved pocket calculators are allowed.

Read carefully the instructions on the answer book provided and make sure that the particulars required are entered on each answer book. If you answer more questions than are required and do not indicate which answers should be ignored, we will mark the requisite number of answers in the order in which they appear in the answer book(s): answers beyond that number will not be considered.

Section A: Answer AT LEAST ONE Question

1. What is a Political Budget Cycle and why does it occur? **(15 marks)**
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2. Has 'globalization' removed taxes on mobile capital bases in advanced western economies? Discuss. **(35 marks)**
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Section B: Answer AT LEAST ONE Question

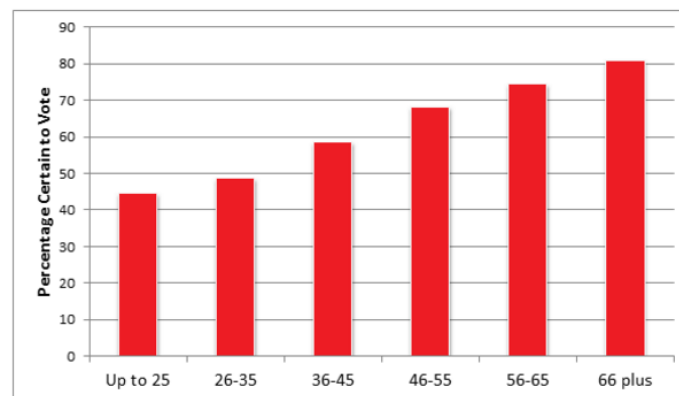
3. Consider the model of the production of informational goods proposed by Arrow. Provide a short explanation for whether you agree or disagree with each of the following statements.
- (a) Informational goods are different from conventional goods only because they are, by nature, indivisible, which means that once they are produced, subsequent units can be replicated at no cost. **(5 marks)**
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- b) In a perfectly competitive market, the incentive to innovate for firms is identical to the social benefit generated by the innovation and, therefore, the amount of innovation under this market structure is optimal. **(5 marks)**
- c) Strengthening property rights over innovations reduces economic activity in the short run but incentivises future growth and higher economic activity in the future. **(5 marks)**
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4. Consider the quality ladder (Schumpeterian) model of economic growth. Discuss whether this model generates an optimal amount of innovation in equilibrium. **(35 marks)**
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Section C: Answer AT LEAST ONE Question

5. Describe the general principles of Downs' "Economic Theory of Political Action" (1957) and explain why he considered a two-party system as the most stable political configuration in a democracy. **(15 marks)**
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6. Younger people have always been less likely to vote than the rest of the population but the gap between different age groups has grown over time into a chasm. The chart below shows the results of a survey carried out in March 2015 in the UK.



Source: Essex Continuous Monitoring Survey, March 2015

Based on the content seen in class, please describe the main reasons that account for low turnout among young voters (18-24 years old). On the top of that, provide examples of policies that have been implemented to tackle this problem in the UK or elsewhere and discuss how social experiments (or randomised control trials, RCTs) could help the government devise policies to encourage political participation of young people. **(35 marks)**
