UNIVERSITY OF WARWICK

Summer Examinations 2015/2016

Topics in Applied Economics (2b)

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.

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 **FOUR** questions, including (i) **TWO** short-answer questions and **TWO** long-answer questions and (ii) at least **ONE** question from **EACH** section. 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. **Short answer question**

    (a) In estimating the effects of political parties on economic outcomes, what is the main problem you would need to address and how would you deal with it? **(6 marks)**

    (b) What are the findings of existing research on the effects of political parties on economic outcomes? **(9 marks)**

---

2. **Long answer question**

    (a) Discuss and compare the following estimation methods: Difference in Differences (D-i-D) and Regression Discontinuity (RD). In particular, highlight their main features and limitations **(15 marks)**.

    (b) How have applications of D-i-D and RD in the context of political economy helped advance knowledge? **(20 marks)**

Section B: Answer AT LEAST ONE Question

3. Short answer question

(a) Outline the signalling explanation for the existence of a graduate earnings premium. **(6 marks)**

(b) In theory, why might the spread in returns by class of degree awarded have increased with a rise in higher education participation? **(9 marks)**

4. Long answer question

(a) What is the empirical evidence on the impact of an increase in higher education participation on the graduate earnings premium in the UK? **(15 marks)**

(b) What is the evidence on the extent to which the graduate earnings premium varies by class of degree awarded in the UK? **(20 marks)**

Section C: Answer AT LEAST ONE Question

5. Short answer question

(a) What, to an economist, are the distinctive features of natural resources, and what specific economic problems originate from these distinctive features? **(5 marks)**

(b) Characterize the sustainable harvest for a managed, partially renewable resource (e.g. fisheries). **(7 marks)**

(c) Does intergenerational equity imply that natural resources should be managed in a sustainable way? **(3 marks)**

6. Long answer question

(a) What are environmental externalities and why do they arise? **(11 marks)**

(b) Describe the alternative policy approaches that can be used by governments to correct for environmental externalities, and discuss their individual advantages and disadvantages. **(12 marks)**

(c) How do these alternative policies differ from each other with respect to their distributional effects? **(12 marks)**