INSTRUCTIONS:

1. Answer ONLY the specified number of questions from the options provided in each section. Do not answer more than the required number of questions. Each section takes one hour.

2. Your answers must be on the paper provided. No more than one answer per page. Do not answer two questions on the same sheet of paper.

3. If you use more than one sheet of paper for a question, write "Page 1 of 2" and "Page 2 of 2."

4. Write ONLY on one side of each sheet. Use only pen. Answers in pencil will be disqualified.

5. Write **------ END -----** at the end of each answer.

6. Write your exam identification number in the upper right-hand corner of each sheet of paper.

7. Write the question number in the upper right-hand corner of each sheet of paper.

Section 3: Applied Economics—Answer Any Two Questions.

3A. (Econ 212: Lombardi) Explain the role of capital in economic development. Is it important? Reference specific growth theories as part of your answer.

3B. (Econ 232: Foldvary) Answer all of the following parts completely:
    a. Assuming that economic profit can be reasonably measured would a annual tax on a portion of economic profit have any deadweight loss?
    b. Explain whether land rent is an economic profit.
    c. Explain whether an annual tax on land value would impose a burden on typical new buyers of land.
(Note: If you answer 3B, you cannot answer 3C.)

3C. (Econ 232: Seshadri) Answer all parts of the following question:
Explain the short term and long term impact of corporate taxes according to the Harberger (1962) model. What is the effect of open economies on the model? Briefly discuss Stiglitz's (1973) critique of the model.
(Note: If you answer 3C, you cannot answer 3B.)

(over)

3D. (Econ 221: Lombardi) Answer both parts:

      a. Consider a Cournot market with two firms. The Inverse Demand for output equals $P = a - bQ$, where P is the price, and Q is total output (i.e., $Q = q_1 + q_2$), where q_i is the output of firm i. Firm 1 has a total cost function given by $C_1 = 10 + cq_1$ and Firm 2 has a total costs function given $C_2 = 2cq_2$. All lower-case letters are constants (i.e., a, b, and c). Which firm will produce more at the market equilibrium? Explain.

      b. In words, how do we determine the equilibrium in a Bertrand market with two identical firms (i.e., identical marginal costs)?