Queen Mary
University of London

Main examination period 2023

ECN 375 Political Economy Duration: 2 hours

YOU ARE NOT PERMITTED TO READ THE CONTENTS OF THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO BY AN INVIGILATOR.

Answer ALL questions.
Explain clearly your answers.

You are permitted to bring 20 x A4 pages of notes into your examination (i.e. 10 double sided pieces of paper). These can be typed or handwritten and can include graphs and images. They can include material from any source. Your notes must be stapled together and include your student ID number and the module code on the first page. You must submit your notes at the end of the examination with your answer booklet.

Calculators are permitted in this examination. Please state on your answer book the name and type of machine used. Complete all rough workings in the answer book and cross through any work that is not to be assessed.

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EXAM PAPERS MUST NOT BE REMOVED FROM THE EXAM ROOM

Examiner: Aniol Llorente-Saguer

SECTION A

This section consists of 4 questions. Explain your answers, and make use of the appropriate equations and graphs where needed. **The answers should be brief (half page max).**

Question 1 [10 marks]

Consider a policy like affirmative action–giving priority for certain opportunities to a historically disadvantaged group. Explain what would be the Kantian analysis of such a policy.

Question 2 [10 marks]

Explain the effect of term limits on electoral accountability and the risk of corruption according to the political agency model.

Question 3 [10 marks]

Recall the paper by Acemoglu, D., Johnson, S., and Robinson, J. A. (2001, AER). "The colonial origins of comparative development: An empirical investigation", which uses an instrumental variable approach to estimate the effect of institutions on economic growth. Explain what is the exclusion restriction in their setup and what are the potential concerns with it.

Question 4 [10 marks]

Explain the main tradeoff that an instrumental voter faces when deciding whether to vote or not when voting is costly.

SECTION B

Question 5 [30 marks]

The Raw Rats society, formed by Chewie, Han, Leia and Luke, is thinking about painting their headquarters. The set of posible colors is $\mathbb{C} = \{B(lue), G(reen), O(range), P(ink)\}$. The preferences of each of them is given by the following ranking:

Chewie	Han	Leia	Luke
G	B	G	O
B	G	O	G
O	O	P	B
P	P	B	P

where the top letter indicates the top line indicates the preferred color, the second one indicates the second preferred color and so on.

(a) Determine the colors which are Pareto dominated. **[6 marks]**

(b) Find whether there is any Condorcet Winner/Loser. **[8 marks]**

(c) Are the preferences single peaked? **[8 marks]**

(d) Can the citizens Han, Leia and Luke be compared ideologically if the order of the alternatives is $B < G < O < P$? **[8 marks]**

Question 6 [30 marks]

Two politicians, A and B, are up for election and choose a policy p^A and p^B, respectively. Each voter i belongs to one of two groups denoted by j, with x_j the optimal policy of group j. The utility of a voter is given by $-\alpha_j(x_j - p^A)^2$ if he votes for A and by $-\alpha_j(x_j - p^B)^2 + \theta_{ij}$ if he votes for B. Let θ_{ij} be uniformly distributed between $[-1, 1]$.

a) When does a voter choose candidate A? What is the vote share of candidate A for a given group as a function of the policies p^A and p^B?

[8 marks]

b) What is the overall vote share from the two groups if the groups are equal sized? Derive the optimal policies, p^A and p^B. **[9 marks]**

c) Let $\alpha_1 = 1$ and $\alpha_2 = 3$. Which group has a greater influence on the implemented policy? Explain the intuition of your result. **[6 marks]**

d) Consider the case where $\alpha_1 = \alpha_2 = 1$. And suppose that θ_{ij} is now uniformly distributed between $[-\frac{1}{2\varphi_j}, \frac{1}{2\varphi_j}]$, with $\varphi_1 = \frac{1}{3}$ and $\varphi_2 = 1$. Compare the optimal policy to the one obtained in part (c) and explain the intuition of your result. **[7 marks]**

End of Paper