

**FULL NAME** \_\_\_\_\_

**ID NUMBER** \_\_\_\_\_

**SIGNATURE** \_\_\_\_\_

**Resit Exam**  
**January 31, 2014**

**Questions**

- 1. [25 points]** Imagine an economy with two markets: The excess demand in the first market reads

$$\zeta_1(p_1, p_2) = 2p_1 - 3p_2$$

and the excess demand in the second market reads

$$\zeta_2(p_1, p_2) = 21p_2 - 14p_1$$

Here,  $(p_1, p_2)$  denotes the vector of prices. State and prove the Walras Law for this economy.

- 2. [15 points]** Consider the following statement:

An economy that is managed by a dictator is Pareto-inefficient.

If this statement is correct, explain why it is. If this statement is not correct, explain why it is not.

- 3. [10 points]** Explain how the parameter  $\alpha \in (0, 1)$  of the production function

$$Y = K^\alpha L^{1-\alpha}$$

can be calibrated using the data from the Social Accounting Matrix where  $Y$ ,  $K$  and  $L$  respectively denote output, capital and labor.