FULL NAME		
ID NUMBER		

SIGNATURE

FINAL EXAM

Instructions

- This exam's contribution to your final grade is 40%.
- There are <u>four</u> questions in this exam. You should answer <u>two</u> of these questions.
- You do not need a calculator.
- Mobile phones and laptop computers should be turned off.
- You are not allowed to leave the room for the first 25 minutes of the exam time.
- This is a closed-books and closed-notes exam.
- You are not allowed to talk to each other during the exam.
- *Student Discipline Regulations of the Institutions of Higher Education* are in effect. According to the 9th article, cheating in this exam may have severe consequences for you—including a temporary suspension of your studies up to two semesters.
- You have exactly <u>75 minutes</u> to complete the exam.

Questions (Answer only two of the questions.)

Question 1. [20 points] Calibration. Consider the utility function

 $U(c_1, c_2) \equiv c_1^{\alpha} c_2^{\beta} \qquad \alpha, \beta > 0$

where c_1 and c_2 denotes the consumption demand for the first and the second goods. Carefully explain in detail what type of data is needed and how these data could be used to calibrate the parameters α and β .

Question 2. [20 points] The Walras' Law. State and prove the Walras' Law.

Question 3. [20 points] Social Accounting Matrix.

Consider a production-only economy with three sectors. These three sectors are tied together with the following input-output relations:

- Sector 1 sells 50% of its product to Sector 2 and 50% of it to Sector 3.
- Sector 2 sells 100% of its product to Sector 1.
- Sector 3 sells 75% of its product to Sector 1 and 25% of it to Sector 2.

Set all prices to unity, and assume that each sector produces 400 units in a given period. Can you write down the social accounting matrix? Explain in detail.

Question 4. [20 points] Clarete and Roumasset's Paper.

Give a brief overview of Ramon L. Clarete and James A. Roumasset's 1986 paper "CGE Models and Development Policy Analysis: Problems, Pitfalls, and Challenges."