

Master of Arts Examination, 2025

2nd Year, 2nd Semester

ECONOMICS

Subject Code: Eco/A/DSE10.21/2025

NEW POLITICAL ECONOMY

Time : 2 Hours

Full Marks - 30

Answer any three of the following questions. 10×3 = 30

- Suppose the population of a certain polity consists of three groups, $J = L, M, R$ with (homogeneous) incomes $y^L < y^M < y^R$. The population share of group J is α_J with $\sum_J \alpha_J = 1$. The average income of the polity be $y = \sum_J \alpha_J y_J$. There are two office-seeking political candidates, A and B announcing policies g_A and g_B . Voter i in group J prefers candidate A if $W^J(g_A) > W^J(g_B) + \sigma^{iJ} + \delta$, where utility of a voter in group J , $W^J(g) = (y - g)(y^J / y) + H(g)$, with $H' > 0$ and $H'' < 0$, σ^{iJ} represents voter i 's ideological bias towards B and δ measures average relative popularity of B . We assume $\sigma^{iJ} \sim U[-1/2\phi, 1/2\phi]$ and $\delta = \bar{\delta} + h(C_B - C_A)$, where $\bar{\delta} \sim U[-1/2\psi, 1/2\psi]$ and $h > 0$ is efficiency of campaign expenditure. Total campaign expenditure collected by candidate P , $C_P = \sum_J O^J \alpha^J C_P^J$, where C_P^J is per capita contribution of group J to candidate P , O^J is a binary variable assuming value 1(0) if group J is organized (unorganized). In the beginning, candidates credibly announce policies simultaneously. Then, organized groups choose campaign contributions and afterwards δ is realized and all uncertainties are resolved. Finally, election takes place and elected candidate implements announced policy. Characterize the equilibrium policy choice of candidates. [10]
- Suppose all voters have identical policy preferences $W(g) = y - \theta g - r + H(g)$, where g is the per capita public good and $H' > 0$ and $H'' < 0$. The relative price of public good (in terms of private good) is $\theta \sim F(\theta)$, with support on $[\underline{\theta}, \bar{\theta}]$. High value of θ implies costly public goods. The (common) per capita income of citizens is y and r is the rent appropriated by party in power from tax revenue. Government budget constraint is given by $\tau y = \theta g + r$, τ being the tax rate. At the beginning, θ is realized and observed only by the party in power. Next, voters set a (non-state contingent) reservation utility for reelecting the incumbent. Incumbent party sets the policy, i.e. a pair (g, r) freely as there is no observability, verifiability or enforceability. Discuss how the equilibrium rent extracted by the incumbent or the utility attained by voters compare with the situation where voters can also observe θ alongside the incumbent. [10]
- There are five groups of citizens with group sizes equal to $\{35, 10, 20, 20, 10\}$, respectively. Their preference orderings are as follows.
Group 1: $r_1^* \succ r_2^* \succ r_3^* \succ r_4^* \succ r_5^*$, Group 2: $r_2^* \succ r_3^* \succ r_1^* \succ r_4^* \succ r_5^*$, Group 3: $r_3^* \succ r_2^* \succ r_4^* \succ r_5^* \succ r_1^*$
Group 4: $r_4^* \succ r_5^* \succ r_3^* \succ r_2^* \succ r_1^*$, Group 5: $r_5^* \succ r_4^* \succ r_1^* \succ r_2^* \succ r_3^*$, where r_i^* is the ideal policy of a

citizen belonging to group i ($i = 1, 2, \dots, 5$). In the beginning, any citizen may enter as a political candidate at a cost $\varepsilon > 0$. An election is then held among the candidates. The winning candidate then chooses the policy r ; if there are no candidates a default $\bar{r} \neq r_i^*$ ($i = 1, 2, \dots, 5$) is implemented. [10]

- (a) Find the Condorcet winner. 5
 - (b) Show that there exists a three-candidate equilibrium where three citizens with ideal policies r_1^* , r_2^* and r_5^* are candidates. Discuss why the policy that would lose in pair wise election against each of the other alternatives wins the three-candidate election. 5
4. Discuss, following the intuition provided by the Meltzer-Richard (1981) model, why extension of universal suffrage to poor voters may increase the size of broad-based redistributive programmes.

[10]

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