

19P226

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Name.....

Reg. No.....

**SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2020**

(CUCSS - PG)

**CC19P ECO2 C05 - MICRO ECONOMICS: THEORY AND APPLICATIONS II**

(Economics)

(2019 Admission - Regular)

Time: Three Hours

Maximum: 30 Weightage

**Part A**

Answer *all* questions. Each question carries 1 weightage.

Multiple choice questions:

1. Tendency to rely heavily on one prior piece of information when making decision is called:  
(a) Anchoring            (b) Fairness            (c) Framing            (d) Loss aversion
2. Risk that can be eliminated by investing in many projects is called:  
(a) Risk premium            (b) Diversifiable risk  
(c) Nondiversifiable risk            (d) None of these
3. Welfare economics is generally accepted as:  
(a) Positive economics            (b) Normative Economics  
(c) Static Economics            (d) None of the above
4. The externalities are otherwise called as:  
(a) Social cost            (b) Neighbourhood effect  
(c) Effluents            (d) Social benefit
5. Wage that a firm will pay to an employee as an incentive not to shirk is called:  
(a) Money wage            (b) Real wage  
(c) Efficiency wage            (d) Contract wage
6. Percentage return that one receives by investing in a bond  
(a) Effective yield            (b) Discount rate  
(c) Opportunity cost of capital            (d) None of these
7. Compensation Criterion was put forward by:  
(a) Bergson and Kaldor            (b) Bergson and Samuelson  
(c) Samuelson and Hicks            (d) Kaldor and Hicks

8. Which of the following causes market failure?

- (a) The consumption of public goods (b) The presence of externalities  
(c) The existence of imperfect competition (d) All of the above

9. Market information normally will be:

- (a) Symmetric (b) Perfect (c) Asymmetric (d) Selective

10. The point from which an individual makes a consumption decision is called:

- (a) Point of Bliss (b) Reference point  
(c) Endowment effect (d) Optimal point

11. The current value of an expected future cash flow is called:

- (a) Interest rate (b) Effective yield  
(c) Present discounted value (d) None of these

12. Concept of justice is closely associated with:

- (a) Bergson (b) Kaldor (c) Arrow (d) Rawls

13. Public goods are:

- (a) Rival and non-exclusive (b) Non rival and exclusive  
(c) Non rival and non-exclusive (d) Rival and exclusive

14. Market for 'lemons' is discussed by:

- (a) Arrow (b) Amartya Sen (c) Akerlof (d) Aftalion

15. Tendency of individuals to value an item more when they own it than when they do not:

- (a) Framing (b) Loss aversion  
(c) Endowment effect (d) Rules of Thumb

(15 x 1/5 = 3 Weightage)

**Part B** (Very Short Answer Questions)

Answer any *five* questions. Each question carries 1 weightage.

16. Explain diversifiable and non-diversifiable risks.

17. What do you mean by point of bliss?

18. Explain the tragedy of commons.

19. Explain principal agent problem.

20. What is free rider problem?

21. Define Net Present Value Criterion.

22. What is framing in behavioural economics?

23. Define positive and negative externalities.

(5 x 1 = 5 Weightage)

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**Part C** (Short Answer Questions)

Answer any *seven* questions. Each question carries 2 weightage.

24. Discuss Capital Asset Pricing Model.

25. Critically evaluate Kaldor –Hicks compensation criteria.

26. What is moral hazard? Discuss the effect of Moral Hazard with the help of a diagram.

27. Explain Lindhal's pricing model.

28. Write a short note on theory of second best.

29. Graphically explain efficiency wage theory.

30. Examine the importance of reference points and consumer preference in Behavioural economics.

31. Explain Rawlsian views on social welfare.

32. Elucidate the importance of net present value criterion in deciding capital investments.

33. Discuss various elements of general equilibrium analysis

(7 x 2 = 14 Weightage)

**Part D** (Essay Questions)

Answer any *two* questions. Each question carries 4 weightage.

34. Critically evaluate Arrow's impossibility theorem.

35. How imperfect information leads to the lemon's problem? How it is solved?

36. Explain various ways of correcting market failure.

37. Discuss the rules of thumb and biases in decision making.

(2 x 4 = 8 Weightage)

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