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Name:

Reg. No:

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2022

(CBCSS - PG)

(Regular/Supplementary/Improvement)

CC19P ECO2 C05 - MICROECONOMICS: THEORY AND APPLICATIONS II

(Economics)

(2019 Admission onwards)

Time: 3 Hours

Maximum: 30 Weightage

Part A

Answer *all* questions. Each question carries 1/5 weightage.

1. In proper capital budgeting analysis we evaluate incremental _____
(a) Cash flows (b) Profit
(c) Accounting income (d) All the above
2. _____ associated with external factors which are beyond the control of an individual firm and affects the overall market.
(a) systematic risk (b) non-diversifiable risk
(c) unsystematic risk (d) both a and c
3. Concept of justice is closely associated with:
(a) Bergson (b) Kaldor (c) Arrow (d) Rawls
4. Who formulated a double criterion which requires the fulfillment of Kaldor-Hicks criterion and also the fulfillment of the reversal test?
(a) Pareto (b) Rawls (c) Scitovsky (d) Bergson
5. Market failure can occur when
(a) monopoly power exists in the market (b) markets are missing.
(c) consumers can influence prices. (d) all of the above.
6. The Coase theorem has problems because
(a) generally, bargaining costs are not zero. (b) individuals are not concerned with others.
(c) markets always exist. (d) all of the above.
7. A public good will probably:
(a) Be expensive in a free market (b) Be overprovided in the free market
(c) Not be provided in the free market (d) Has no opportunity cost
8. Public goods are:
(a) Rival and non-exclusive (b) Non rival and exclusive
(c) Non rival and non-exclusive (d) Rival and exclusive

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Turn Over

9. Market mechanisms are unlikely to provide
 (a) prices. (b) nonrival goods efficiently.
 (c) supply and demand. (d) none of the above.
10. One way the “lemons problem” in the used-car industry can be mitigated is by
 (a) raising the price of used cars.
 (b) hiring auto experts to sell used cars.
 (c) requiring sellers to guarantee trouble-free cars.
 (d) allowing owners to trade in their own cars when they purchase a used car.
11. Lemons theory was put forward by
 (a) Samuelson (b) Keynes (c) Akerlof (d) None of the above
12. The firm’s manager’s act in the stockholder’s interest is by providing managers with golden parachutes. It is one way of overcoming the problem of
 (a) Moral hazard (b) Principle agent problem
 (c) Problem of adverse selection (d) Tragedy of common
13. Adverse selection arises because
 (a) insurance buyers have more information than insurance sellers.
 (b) insurance sellers have more information than insurance buyers.
 (c) individuals can select which insurance company to patronize.
 (d) insurance companies can exercise too much control over who they insure.
14. Tendency to rely heavily on one prior piece of information when making decision is called:
 (a) Anchoring (b) Fairness (c) Framing (d) Loss aversion
15. _____ is an experimental science
 (a) Behavioral economics (b) financial economics
 (c) game theory (d) all of these

(15 × 1/5 = 3 Weightage)

Part B (Very Short Answer Questions)Answer any *five* questions. Each question carries 1 weightage.

16. Define Net Present Value Criterion.
17. Define perpetuities.
18. What are the objectives of capital budgeting?
19. What is meant by Pareto optimality?
20. Define the features of public goods.

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21. Define the principal agent problem.
22. Explain the ' golden parachutes'.
23. What is meant by reference point?

(5 × 1 = 5 Weightage)

Part C (Short Answer Questions)Answer any *seven* questions. Each question carries 2 weightage.

24. Explain firms demand for capital.
25. How pricing of risky assets is done?
26. Critically evaluate Rawl’s welfare concept with Kaldor-hicks Criterion
27. Briefly explain Social Welfare function.
28. Explain production and consumption externalities.
29. When would direct regulation be better than effluent fees in pollution control?
30. How to overcome free rider problem?
31. How adverse selction affect the insurance market? Explain.
32. Explain how the market signaling helps to overcome the asymetric information.
33. How fairness can affect economic decisions?

(7 × 2 = 14 Weightage)

Part D (Essay questions)Answer any *two* questions. Each question carries 4 weightage.

34. How did J. Rawls develop a theory of justice for deriving criteria of fair distribution in a society?
35. Explain various ways of correcting market failure.
36. Adverse selection is the direct result of asymmetric information. Explain.
37. Individual behaviour sometimes seems unpredictable', Critically Evaluate.

(2 × 4 = 8 Weightage)

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