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Name: .....

Reg. No: .....

**SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2024**

(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. Long term investment decisions is also known as \_\_\_\_\_  
(a) Profitability Index (b) Capital budgeting  
(c) IRR (d) None of the above
2. 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
3. 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
4. Optimality quantity of public goods produced and the cost of public goods fairly shared among everyone is \_\_\_\_\_  
(a) Pareto optimum (b) Pigous equilibrium  
(c) Lindhal equilibrium (d) Musgravian principle
5. Points where the slopes of the isoquants are equal  
(a) Indifference curve (b) Contract curve  
(c) Production possibility curve (d) Edgewoth box
6. A pure private good is  
(a) nonrival in consumption and subject to exclusion.  
(b) Rival in consumption and subject to exclusion.  
(c) Rival in consumption and not subject to exclusion.  
(d) All of the above
7. 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

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**Turn Over**

8. Club goods are \_\_\_\_\_  
 (a) Excludable but non-rival (b) Non excludable but non-rival  
 (c) Non excludable but rival (d) Rival and excludable
9. Individuals pay for public goods according to their marginal benefits:  
 (a) Lindhal Tax (b) Direct tax (c) Piguovian tax (d) None of these
10. Market for 'lemons' is discussed by:  
 (a) Arrow (b) Amartya Sen (c) Akerlof (d) Aftalion
11. Situation in which a buyer and a seller possess different information about a transaction:  
 (a) Asymmetric information (b) Coase theorem  
 (c) Euler's theorem (d) None of the above
12. Health care markets may be inefficient because of  
 (a) Poor information (b) Adverse selection (c) Moral hazard (d) All of the above.
13. An example of adverse selection is  
 (a) Purchasing a new car sight unseen based on the recommendation of a neighbour.  
 (b) High health insurance premiums resulting from the poor health of people who buy policies.  
 (c) Suppliers who charge more for better quality clothing than for lower quality clothing.  
 (d) Being talked into buying a low-quality item because the price is lower.
14. Which of the following statements is correct about behavioural economics?  
 (a) It builds upon the standard economic model  
 (b) It does not use the methodology of positive economics  
 (c) It rejects the standard economic model  
 (d) It is the same as economic psychology
15. Tendency for individuals to prefer avoiding losses over acquiring gains  
 (a) Loss aversion (b) Framing  
 (c) Endowment effect (d) None of these
- (15 × 1/5 = 3 Weightage)**

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

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

16. Define future goods.  
 17. Define perpetuities.  
 18. What are the factors affecting capital budgeting?  
 19. Define pareto criterion.  
 20. Difference between public and common goods.

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21. What is meant by adverse selection?  
 22. What is meant by efficiency wage theory?  
 23. What does it mean for consumers to maximise expected utility?

**(5 × 1 = 5 Weightage)**

**Part C** (Short Answer Questions)

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

24. Elucidate the importance of net present value criterion in deciding capital investments.  
 25. Distinguish between diversifiable and non diversifiable risk.  
 26. Explain the general equilibrium of exchange.  
 27. Write a short note on theory of second best.  
 28. Explain production and consumption externalities.  
 29. Explain the methods of correcting market failure.  
 30. Explain the relationship between coase theorem and market failure.  
 31. Explain Principal-agent problem.  
 32. What is the relationship between speculation and the economics of information?  
 33. Explain rules of thumb and biases in decision making.

**(7 × 2 = 14 Weightage)**

**Part D** (Essay questions)

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

34. Explain the criteria of social welfare. Briefly illustrate Kaldor-Kicks compensation criterion.  
 35. What is Coase Theorem? How is it significant to the understanding of social conflicts caused by externalities?  
 36. Examine the concept of externalities with respect to various property rights.  
 37. Discuss the rules of thumb and biases in economic decision making.

**(2 × 4 = 8 Weightage)**

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