25P225 (Pages: 3) Name: ....

Reg.No: ....

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2026

(CBCSS - PG)

(Regular/Supplementary/Improvement)

CC19PECO2C05 - 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. Statistical techniques to measure the risk involved in a particular security
   (a) standard deviation (b) variance (c) beta (d) All the above
3. The Key concept in Rawlsian social welfare function is what he termed as the
   (a) Difference Principle (b) Equality Principle (c) Marginal Principle (d) None of the above
4. Arrows impossibility theorem is associated with :
   (a) search cost (b) welfare economics (c) input-output analysis (d) all of these
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. Public goods can be
   (a) provided privately (b) provided publicly
   (c) subject to free rider problems (d) all of the above
7. Free riding is considered a failure of the conventional ___________ market system
   (a) perfect (b) free (c) imperfect (d) barter
8. Tragedy of the commons to occur a resource must be ___________
   (a) scarce (b) rivalrous in consumption
   (c) non-excludable (d) All the above

9. Which method can help in obtaining a welfare improvement if externalites exist?
   (a) Pigouvian taxes
   (b) regulation
   (c) assigning property rights and permitting bargaining
   (d) all 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. Market for 'lemons' is discussed by:
   (a) Arrow (b) Amartya Sen (c) Ackerlof (d) Aftalion

12. A situation where people who have taken out insurance behave more recklessly as a result is known as:
   (a) asymmetric information (b) bad luck
   (c) adverse selection (d) moral hazard

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 of individuals to value an item more when they own it than when they do not:
   (a) Framing (b) Loss aversion (c) Rules of Thumb (d) Endowment effect

15. Tendency to overstate the probabilty that a certain event will occur when faced with relatively little information
   (a) law of small numbers (b) loss aversion (c) Framing (d) anchoring

(15 × 1/5 = 3 Weightage)

Part B (Very Short Answer Questions)

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

16. How does the diversification of an investors portfolio avoid risk?

17. What is meant by uncertainity?

18. What are the factors associated with unsystematic risk?

19. What is meant by general equilibrium in market?

20. Define Coase theorem.

21. Define the principal agent problem.

22. What is meant by efficency wage theory?

23. What is meant by loss aversion?

(5 × 1 = 5 Weightage)

Part C (Short Answer Questions)

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

24. How we can determine rate of return?

25. Critically evaluate Rawl’s welfare concept with Kaldor-Hicks Criterion

26. Discuss various elements of general equilibrium analysis

27. Kaldor-Hicks criterion is based upon unacceptable implicit value judgements' Explain.

28. Make a short note on negative externalities and inefficiency.

29. How does the market demand for a public good differ from the market demand for a private good?

30. What do you mean by Lindahl Pricing?

31. How adverse selction affect the insurance market? Explain.

32. One way of overcoming the principal agent problem is golden parachutes' .Discuss

33. What is an endowment effect? Explain with help of examples.

(7 × 2 = 14 Weightage)

Part D (Essay questions)

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

34. Critically evaluate Kaldor –Hicks compensation criteria with pareto criteria.

35. What is public goods? Explain public goods and market failure.

36. Most Advertising is manipulative and provides very little informtion to consumers'. Critically evaluate.

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

(2 × 4 = 8 Weightage)

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