

22P225

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Name:

Reg. No:

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2023

(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. Risk is due to the influence of internal factors prevailing within an organization
(a) Unsystematic risk (b) Market risk
(c) Systematic risk (d) None of these
3. Pareto Optimality Criterion is also known as the theory of _____
(a) Second Best (b) First Best (c) Constraints (d) Feasibility
4. Arrows impossibility theorem is associated with:
(a) Search cost (b) Welfare economics
(c) Input-output analysis (d) All of these
5. Movement from an inefficient allocation to an efficient allocation in the Edgeworth Box will
(a) Increase the utility of all individuals.
(b) Increase the utility of at least one individual, but may decrease the level of utility of another person
(c) Increase the utility of one individual, but cannot decrease the utility of any individual.
(d) decrease the utility of all individuals.
6. 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
7. Among the following free rider problem as an economics issue only occurs under which conditions.
(a) When no one can consume a resource in unlimited amounts
(b) When no one has to produce and maintain the resource
(c) When everyone can limit anyone else's consumption
(d) When everyone can consume a resource in unlimited amounts

8. Common goods are _____
- (a) Non-excludable and rival (b) Rival and excludable
(c) Non Rival and Non excludable (d) Non of these
9. In drilling a new oil well in an existing oil field, the fact that output on existing wells is reduced means that
- (a) Existing wells have negatively sloped marginal cost curves.
(b) Existing wells and new wells are owned by different people
(c) Existing wells and new wells are owned by the same people
(d) There is a discrepancy between private and social marginal costs
10. Adverse selection can occur when
- (a) All persons involved in a transaction have full information
(b) One person has information not available to others
(c) Post-agreement incentives result in workers shirking
(d) Nobody has any information about a particular product
11. Lemons theory was put forward by
- (a) Samuelson (b) Keynes (c) Akerlof (d) None of the above
12. When the average buyer of an insurance policy is likely to have higher risk than others in his class, this is known as
- (a) Adverse selection (b) Moral hazard
(c) Asymmetric information (d) None of these
13. Which of the following is a reason why employers are the predominant source of insurance?
- (a) Insuring at the firm level reduces the extent to which insurance has moral hazard effects.
(b) Insuring at the firm level allows insurers to create large insurance pools with a predictable distribution of medical risk.
(c) None of these (d) Both b and c are correct
14. _____ based on experiments that combine economic deduction and psychological induction
- (a) Behavioural economics (b) Welfare economics
(c) General economics (d) None of these
15. Point from which the individual makes the consumption decision:
- (a) Reference point (b) Loss aversion (c) Anchoring (d) Framing
- (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. Distinguish between actual return and expected return.

18. What are the factors associated with systematic risk?
19. Define Rawls's criterion
20. List a few properties of public goods.
21. What is meant by search cost?
22. What is meant by efficiency wage theory
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 the impact of market interest rate influence the stock price.
25. Write a short note on theory of second best.
26. Explain the theory of 'second best' with first theorem.
27. 'Changes in economic reorganisation which makes some people better off and others worse off'. Explain.
28. Explain tragedy of commons with suitable examples.
29. What is the basic difference between using a subsidy to induce producers to install antipollution equipment and using a tax on producers who pollute?
30. Explain how the externality leads to market failure
31. How does adverse selection affect the insurance market? Explain.
32. Explain the 'golden parachutes'
33. 'Suggested piece of information may have on your final decision'. Discuss.

(7 × 2 = 14 Weightage)

Part D (Essay questions)

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

34. What do you mean by Pareto optimality? Explain the basic conditions for the attainment of Pareto optimality.
35. What is Coase Theorem? How is it significant to the understanding of social conflicts caused by externalities?
36. How does Efficiency wage theory explain to avoid shirking on the job by workers?
37. 'Individual behaviour sometimes seems unpredictable'. Critically Evaluate.

(2 × 4 = 8 Weightage)

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