24P225 (Pages: 3) Name : ....

Reg. No : ....

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2025

(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. Working capital is also known as _____ capital

   (a) Fixed   (b) Revolving   (c) Circulating   (d) Both b & c

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. Who viewed the following idea."Economic growth cannot be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy".

   (a) Keynes   (b) Marx   (c) Arrow   (d) A.K. Sen

4. Hicks test is the reverse of _____ test

   (a) Pareto   (b) Pigou   (c) Kaldor   (d) Scitovsky

5. A social welfare function based on the explicit value judgements of society is called:

   (a) Paretos welfare function   (b) Piguis welfare function

   (c) Bergson welfare function   (d) Hicks-Kaldor welfare function

6. In a public goods context, it is difficult to measure impact on real income because

   (a) Public goods are generally free to the public

   (b) They make up a small percentage of total GDP

   (c) It is hard to measure how people value the public good

   (d) Inflation decreases the value of the good

7. The _____ is a hypothetical price ; it is the price that a person would be willing to pay for a little more of the good, if someone were to offer her a little more of the good.

   (a) Monopoly Price   (b) Peak Load price   (c) Capital Asset Pricing   (d) Lindahl price

8. Who wrote the article "The Tragedy of the Commons" :

   (a) Garrett Hardin   (b) William Forster Lloyd

   (c) Paul Milgrom   (d) None of these

9. A negative production externality means:

   (a) The social marginal cost is greater than the private marginal cost

   (b) The social marginal benefit is greater than the private marginal cost

   (c) The social marginal cost is greater than the private marginal benefit

   (d) The social marginal cost is less than the private marginal cost

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. 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. 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. _____ studies the effects of psychological, cognitive, emotional, cultural and social factors on the decisions of individuals and institutions and how those decisions vary from those implied by classical economic theory.

    (a) Financial Economics   (b) Behavioral economics

    (c) New Classical Economics   (d) Both b & c

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. Explain diversifiable and non-diversifiable risks.

17. Explain systematic and unsystematic risks.

18. What are the factors associated with systematic risk?

(2)

19. Define rawl's criterion.

20. Define external benefits.

21. What is meant by the market for lemons?

22. What is meant by asymmetric information?

23. What do you mean by rules of thumb?

(5 × 1 = 5 Weightage)

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

24. Explain the factors affecting the capital budgeting decision.

25. How pricing of risky assets is done?

26. Explain the general equilibrium of exchange.

27. Pareto optimum is not achieved even under perfect competition,Discuss graphically.

28. Why does free access to a common resource usually lead to the overuse of the resource?

29. How to overcome free rider problem?

30. What is meant by market externality ? Discuss the effect of externailty with the help of a diagram.

31. What are the implications of asymmetric information?

32. Explain the problem of adverse selection in the insurance market.

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

(7 × 2 = 14 Weightage)

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

34. Critically evaluate Kaldor -Hicks Compensation Criteria.

35. Explain various negative and positive externalities associated with production and consumption.

36. Critically evaluate various ways of correcting market failure.

37. Reference points can strongly affect the way people approach economic decsions' Discuss.

(2 × 4 = 8 Weightage)

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