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Name......................................

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SECOND SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2024

(CBCSS)

Economics

ECO2C05—MICRO ECONOMICS THEORY AND APPLICATIONS—II

(2019 Admission onwards)

: Three Hours

Maximum : 30 Weightage

Part A

Multiple Choice Questions.

Answer all questions.

Each question carries 1/5 weightage.

1. The concept of backwardation refers to a situation where :

   (a) The current price of a future good is higher than its expected future price.

   (b) The current price of a future good is lower than its expected future price.

   (c) The supply of a future good exceeds its demand in the current market.

   (d) Speculators engage in short-selling of future goods.

2. The free rider problem refers to :

   (a) The inability to exclude individuals from consuming a public good.

   (b) The overproduction of public goods due to excessive demand.

   (c) The lack of awareness about the benefits of public goods.

   (d) Individuals benefiting from a public good without contributing to its provision.

3. Signaling is a mechanism used to address asymmetric information by :

   (a) Hiding relevant information to gain an advantage in a transaction.

   (b) Sharing incomplete or misleading information to deceive the other party.

   (c) Providing credible and costly signals to convey private information.

   (d) Refusing to disclose any information to maintain a position of power.

Turn over

4. The Edgeworth Box diagram is often used to illustrate :

   (a) The production possibilities frontier of an economy.

   (b) The distribution of income and wealth among individuals.

   (c) The optimal allocation of resources in a market economy.

   (d) The trade-offs between two goods in consumer choice.

5. Adverse selection occurs when :

   (a) Sellers have more information than buyers in a transaction.

   (b) Buyers have more information than sellers in a transaction.

   (c) Both buyers and sellers have equal information in a transaction.

   (d) Buyers and sellers intentionally hide information from each other.

6. The Rawlsian justice criterion emphasizes :

   (a) Equality of outcomes and income redistribution.

   (b) Efficiency and market competitiveness.

   (c) The maximization of social welfare through utility.

   (d) Fairness and justice as fairness.

7. The anchoring effect refers to :

   (a) The tendency to rely too heavily on the first piece of information encounte

   (b) The tendency to make decisions based on social norms and expectations

   (c) The tendency to prefer the status quo and resist change.

   (d) The tendency to overestimate the probability of rare events.

8. The discount rate used in intertemporal choice represents:

   (a) The inflation rate.

   (b) The interest rate.

   (c) The risk premium.

   (d) The average rate of return.

9. The CAPM assumes that investors are :

   (a) Risk-averse.

   (b) Risk-neutral.

   (c) Risk-seeking.

   (d) Indifferent to risk.

10. Net Present Value (NPV) is a financial metric used to :

   (a) Determine the profitability of a project.

   (b) Calculate the market value of a company.

   (c) Assess the liquidity of an investment.

   (d) Measure the risk associated with an investment.

11. Non-diversifiable risks are also known as :

   (a) Systematic risks.

   (b) Unsystematic risks.

   (c) Idiosyncratic risks.

   (d) Specific risks.

12. The concept of common property resources is often associated with :

   (a) Market failures and externalities.

   (b) Government intervention and regulation.

   (c) Sustainable development and environmental conservation.

   (d) Individual property rights and ownership.

13. The Compensation Principle (Kaldor-Hicks criterion) states that :

   (a) An allocation is efficient if it benefits the majority of individuals.

   (b) An allocation is efficient if the winners can fully compensate the losers.

   (c) Efficiency is achieved when income is equally distributed.

   (d) The government should intervene to correct income inequalities.

14. A negative externality occurs when :

   (a) The social cost of production exceeds the private cost.

   (b) The social benefit of production exceeds the private benefit.

   (c) The social cost of production is less than the private cost.

   (d) The social benefit of production is less than the private benefit.

15. The rate of return on an investment is calculated as :

    (a) The difference between the initial investment and the final value.

    (b) The percentage increase in the-value of the investment over a specified p

    (c) The interest earned on the investment.

    (d) The total cash Inflows from the investment.

$(15 \times 1/5$

Parc B (Very Short Answer Questions)

Answer any **five** *questions.*

Each question carries a weightage of 1.

16. What is Prospect theory ?

17. Define property rights

18. What is utility maximization ?

19. Define Public goods.

20. What is the purpose of Behavioural Economics ?

21. Define Hidden action.

22. What is General equilibrium analysis ?

23. What are Risky assets ?

$(5 \times 1$

Part C (Short Answer Questions)

Answer any **seven** *questions.*

Each question carries a weightage of 2.

24. What is known as the Rule of thumb ?

25. What are the Implications of asymmetric information ?

26. Discuss the Free rider problem.

27. What is meant by the Supply of future goods ?

28. How does the rate of return is determined ?

29. What are the Negative externalities of production ?

30. Describe the Rawls theory of justice.

31. Bring out the issues related to the Insurance markets.

32. What is known as the Criterion of social welfare ?

33. What are Reference points ?

(7 × 2 = 14 weightage)

Part D (Essay Type Questions)

Answer any **two** *questions.*

Each question carries a weightage of 4.

34. Discuss the problem of Tragedy of commons.

35. Explain in detail the Kaldor Hicks compensation criteria.

36. Critically assess the Principal Agent Problem.

37. Discuss the salient features of the CAPM model.

(2 × 4 = 8 weightage)