SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2021

ECONOMICS

FECO2C05: MICROECONOMICS: THEORY AND APPLICATIONS II

Time: 3 Hours   Maximum Weightage: 30

Part A: Multiple Choice Questions. *All* **questions can be answered.**

Each carries $^1/_5$ weightage.

1. The problem of adverse selection generally arises due to ………..
   a) No information   b) Asymmetric information
   c) Full information   d) Wrong information

2. The possibility that an individual behavior may change because he/she has insurance is an example of a problem known as:
   a) Principal-agent problem   b) Moral Hazard
   c) Market Signaling   d) Adverse Selection

3. Pareto's marginal conditions for efficiency in composition of output (Product mix) requires:
   a) $MRTS^X_{LK} = MRTS^Y_{LK}$ b) $MRS^A_{XY} = MRS^A_{XZ} = MRS^B_{XZ}$
   c) $MRPT_{XY} = MRS^A_{XY} = MRS^B_{XY}$ d) $MRTS^Y_{LK} = MRS^A_{XY} = MRS^Z_{XY}$

4. The production possibility curve is also known as:
   a) Price line   b) Iso-cost line
   c) Product Transformation Curve   d) Production Curve

5. The first fundamental theorem of welfare economics requires:
   a) there be an efficient market for every commodity.
   b) the economy operates at some point on the utility possibility curve
   c) producers and consumers to be price takers
   d) all of the above

6. Which of the following factors is NOT the cause for 'Market Failure'?
   a) Public Goods   b) Lack of demand
   c) Externality   d) Asymmetric information

7. All the Pareto efficiency conditions are satisfied under:
   a) Perfect competition   b) Monopoly
   c) Oligopoly   d) Monopolistic Competition

8. A Public good is:
   a) Non excludable in nature and Non rival in consumption
   b) Excludable in nature
   c) A good that public must possess
   d) None of these

(PTO)

9. Non-symmetric risk means:
   a) A risk that cannot be eliminated by diversifying
   b) A risk that can be eliminated by diversifying
   c) A risk that can be eliminated without diversifying
   d) A risk that cannot be eliminated

10. A graphical illustration used to explain efficiency conditions and demonstrates how the allocations of some goods and resources can be improved through exchange is called:
    a) Production Possibility Curve   b) Indifference curve
    c) Income consumption curve   d) Edgeworth box diagram

11. A risk asset is any asset that carries:
    a) risk   b) price volatility
    c) a & b   d) none of these

12. Risk diversification consists of:
    a) Risk spreading   b) Risk neutral
    c) Risk pooling   d) All the above

13. The cost or benefit incurred or received by a third party is ………..
    a) Utility   b) Consumer surplus
    c) Externality   d) Free rider problem

14. Principal-agent problem is also known as:
    a) Moral hazard   b) The agency problem
    c) Market signaling   d) None of these

15. The effects of psychological, cognitive, emotional, cultural and social factors on the economic decisions deals by:
    a) Welfare economics   b) Health economics
    c) Microeconomics   d) Behavioral economics

(15 x $^1/_5$ = 3 weightage)

Part B: Very short answer questions. *All* questions can be answered. Each carries *one* weightage (Ceiling 4 weightage).

16. Discuss briefly General equilibrium of exchange.

17. Distinguish between welfare and positive economics.

18. What is Pareto Optimal?

19. Write a short note on Features of Public Good.

20. What is Positive Externality?

21. Write a brief note on Market Signaling.

22. What is the lemon problem?

23. Elaborate on behavioral economics.

Part C: Short answer questions. *All* questions can be answered. Each carries *three* weightage (Ceiling 15 weightage).

24. Explain the way to determine the rate of return of capital.

25. What are the diversified risks-explain?

26. How to determine the equilibrium price of future goods?

27. Explain Scitovsky's Double Criterion.

28. Elucidate the Pareto optimality conditions.

29. Explain the theory of social welfare function.

30. Explain Tragedy of Commons.

31. Discuss common property resources.

32. Explain Arrows Impossibility Theorem.

33. Describe the Principal Agent Problem.

Part D: Essay questions. *All* questions can be answered. Each carries *four* weightage (Ceiling 8 weightage).

34. "Pareto optimality is a necessary condition and not a sufficient condition." Elucidate.

35. Explain the demand and supply for future goods and the ways to reach equilibrium price.

36. Explain the public goods and market failure. What are the ways of correcting market failure?

37. Critically examine the Efficiency Wage Theory.