D2AEC2301 (3 Pages) Name............................

Reg.No..........................

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2024
(Regular/Improvement/Supplementary)

ECONOMICS
FECO2C05: MICROECONOMICS: THEORY & APPLICATIONS II

Time: 3 Hours **Maximum Weightage: 30**

Part A: Multiple choice questions. Answer *all* questions. Each carries $^1/_5$ weightage.

1. The point where social welfare is maximized at the point of tangency of the envelope utility possibility frontier with the highest possible social indifference contour is known as:

   a) Point of inflexion b) Point of tangency
   c) Point of bliss d) None of the above

2. Who suggested the use of an explicit set of value judgments in the form of a social welfare function?

   a) Kaldor b) Pareto c) Bentham d) Bergson

3. The work 'Welfare Prepositions in Economics and Interpersonal Comparisons of Utility' is associated with:

   a) Hicks b) Kaldor c) Samuelson d) Lerner

4. When the production possibilities of one firm are influenced by the choices of another firm or consumer is known as:

   a) Consumption externality b) Production externality
   c) Pareto efficiency d) None of the above

5. Legal limit on the amount of pollutants that a firm can emit is known as:

   a) Emissions fee b) Emissions standard
   c) Tradeable emissions permits d) None of the above

6. Resources to which anyone has access refers to:

   a) Coase theorem b) Common property resource
   c) Property rights d) Economic efficiency

7. With asymmetric information, low-quality goods can drive high-quality goods out of the market, it refers to:

   a) Adverse selection problem b) Moral Hazard problem
   c) The lemons problem d) None of the above

(P.T.O.)

8. The situation by which sellers send signals to buyers conveying information about product quality:

a) Market signalling
b) The principal-agent problem
c) Shirking model
d) Moral Hazard

9. ----------- occurs when a party whose actions are unobserved affects the probability or magnitude of a payment.

a) Moral Hazard
b) Market signalling
c) Adverse selection
d) The principal-agent problem

10. The practice of reducing risk by allocating resources to a variety of activities whose outcomes are not closely related is known as -----------

a) Insurance
b) Diversification
c) Non-diversification
d) The capital asset

11. ----------- refers to an asset that provides an uncertain flow of money or services to its owner.

a) Risky asset
b) Riskless assets
c) Asset returns
d) None of the above

12. ------------ is the difference between the present value of cash inflows and the present value of cash outflows over a period of time.

a) Net Present Value
b) Internal Rate of Return
c) Return On Investment
d) None of the above

13. The situation in which the tendency of individuals to value an item more when they own it than when they do not is known as:

a) Ratchet effect
b) Endowment effect
c) Conditional effect
d) None of the above

14. ------------ refers to the impact that a suggested (perhaps unrelated) piece of information may have on your final decision.

a) Reference Point
b) Consumer preferences
c) Loss aversion
d) Anchoring

15. ------------ is a psychological statement that says that people tend to be overly influenced by small samples, particularly if they experience them themselves.

a) Law of large numbers
b) Law of small numbers
c) Law of medium numbers
d) None of the above

(15 × $^1/_5$= 3 weightage)

Part B: Very short answer questions. Answer any *five* questions. Each carries 1 weightage.

16. Explain the concept of Externality.

17. Write a short note on Moral Hazard.

18. Explain social welfare function.
19. Discuss the consumer's choice under risk.
20. What is Reference Point?
21. Briefly explain the concept of Common Property Resources.
22. What do you mean by Public Good?
23. Compare the real interest rate and the nominal interest rate.

(5 × 1= 5 weightage)

Part C: Short answer questions. Answer any *seven* questions. Each carries 2 weightage.

24. Explain Akerlofs theory of 'Lemons.'
25. Discuss Coase theorem in the context of problem of externalities.
26. Explain Kaldor - Hicks Compensation Criterion.
27. Briefly discuss Sen's view on welfare economics.
28. Explain the principal agent problem.
29. Discuss the various methods of diversification of risk.
30. What is Tragedy of Commons?
31. Explain the theory of second best.
32. Discuss the net present value criterion for capital investment decisions.
33. Briefly explain the rules of thumb and biases in decision making under behavioural economics.

(7 × 2= 14 weightage)

Part D: Essay questions. Answer any *two* questions. Each carries 4 weightage.

34. Explain the concept of Asymmetric information and describe its working nature in insurance market.
35. Critically examine Pareto's efficiency conditions.
36. Describe the concept of negative externalities of production and evaluate the possible measures that a government might use to correct such a market failure.
37. Discuss in detail the criteria for social welfare.

(2 × 4= 8 weightage)