D 122347   (Pages : 5)   Name...

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SECOND SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2025

(CBCSS)

Economics

ECO 2C 05—MICRO ECONOMICS THEORY AND APPLICATIONS—II

(2019 Admission onwards)

Time : Three Hours   Maximum : 30 Weightage

Part A (Multiple Choice Questions)

Answer **all** *questions.*

Each question carries a weightage of 1/5.

1. The concept of contango 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 demand for a future good exceeds its supply in the current market.

    (d)   Speculators engage in long-term investments in future goods.

2. Market failure occurs with public goods because :

    (a)   There is insufficient demand for public goods.

    (b)   Public goods have negative externalities.

    (c)   Private markets cannot provide public goods efficiently.

    (d)   Public goods create positive externalities.

3. The concept of Pareto efficiency in general equilibrium of exchange refers to a situation where :

    (a)   No individual can be made better off without making someone else worse off.

    (b)   The government intervenes to redistribute wealth and income.

    (c)   Consumers and producers act selfishly to maximize their own gains.

    (d)   Market prices adjust to equate supply and demand in all markets.

Turn over

4. The "tragedy of the commons" refers to :

    (a)   The overuse and degradation of common resources due to lack of property rights.

    (b)   The underuse and depletion of common resources due to excessive regulations.

    (c)   The efficient allocation of resources in a common property setting.

    (d)   The equitable distribution of resources among common stakeholders.

5. Non-diversifiable risks are :

    (a)   Risks that can be eliminated through diversification.

    (b)   Risks that affect a specific asset or investment.

    (c)   Risks that are specific to an industry or sector.

    (d)   Risks that are inherent to the entire market or economy

6. The principal-agent problem arises due to :

    (a)   Asymmetric information between employers and employees.

    (b)   Symmetric information between buyers and sellers.

    (c)   Perfect information among shareholders in a company.

    (d)   The absence of information in economic transactions.

7. The Second Fundamental Theorem of Welfare Economics states that :

    (a)   A Pareto efficient allocation can always be achieved through redistribution of income.

    (b)   Market failures can be resolved through government intervention.

    (c)   A competitive market equilibrium is Pareto efficient when resources are allocated optimally.

    (d)   Social welfare is maximized when individuals make rational choices.

8. Sunk cost fallacy refers to :

    (a)   The tendency to overestimate the value of something we already own.

    (b)   The tendency to make decisions based on past investments of time, money, or effort.

    (c)   The tendency to be overly influenced by the opinions of others.

    (d)   The tendency to give more weight to losses than to gains.

9. In the general equilibrium of production, resource allocation is considered efficient when :

    (a) Firms minimize their costs by using the least amount of resources.

    (b) The market prices of inputs are equal to their marginal productivity.

    (c) Firms produce at the point where the average cost is minimized.

    (d) The government intervenes to ensure the fair distribution of resources.

10. When comparing multiple projects, the project with the highest NPV is generally considered :

    (a) The most risky.   (b) The most liquid.

    (c) The most profitable.   (d) The least desirable.

11. The CAPM is based on the assumption of :

    (a) Efficient markets.   (b) Perfect competition.

    (c) Rational investor behaviour. (d) Symmetric information.

12. Which criterion considers the distributional consequences of policies and aims to improve the well-being of the least advantaged members of society ?

    (a) Rawlsian justice.   (b) Utilitarianism.

    (c) Cost-benefit analysis.   (d) Libertarianism.

13. Anchoring bias occurs when :

    (a) People rely too heavily on the first piece of information encountered.

    (b) People are influenced by the opinions or actions of others.

    (c) People are overconfident in their abilities or knowledge.

    (d) People make decisions based on their emotions rather than rational analysis.

14. The Coase Theorem suggests that :

    (a) Externalities can only be addressed through government intervention.

    (b) Externalities can be resolved through private negotiations if property rights are well-defined.

    (c) Externalities always result in market failures.

    (d) Externalities can be eliminated through perfect competition.

Turn over

15. The concept of opportunity cost is important in intertemporal choice because it :

    (a)   Reflects the value of the best alternative foregone.

    (b)   Represents the interest rate used for discounting.

    (c)   Determines the length of the time horizon.

    (d)   Represents the average rate of return on investments.

(15 × 1/5 = 3 weightage)

Part B (Very Short Answer Questions)

Answer any **five** *questions.*
Each question carries a weightage of 1.

16. Define the Nominal interest rate.

17. What is meant by the Negative externalities in production ?

18. What is the Tragedy of commons ?

19. What is known as the General equilibrium of production ?

20. Define Adverse selection.

21. What is meant by social preferences ?

22. What is the Scitovsky Criterion ?

23. Define Rate of return.

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

Answer any **seven** *questions.*
Each question carries a weightage of 2.

24. What are the Biases in decision making ?

25. Discuss the term Market signalling.

26. Bring out the Characteristics of public goods

27. State the significance of the NPV criterion.

28. What all types of efficiencies are available in the competitive markets ?

29. What is meant by the demand for future goods ?

30. Discuss the first theorem of welfare economics.

31. What are the Positive externalities in production ?

32. What is Hidden information ?

33. What is known as Consumer preferences ?

(7 × 2 = 14 weightage)

Part D (Essay Questions)

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

34. Critically evaluate the Arrows impossibility theorem.

35. Discuss in detail the various aspects of Lindahl pricing.

36. Discuss the significance of the lemons problem.

37. Discuss the various aspects related to the Pricing of risky assets.

(2 × 4 = 8 weightage)