

D 140517

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Name.....

Reg. No.....

**SECOND SEMESTER M.A. (CBCSS) REGULAR/SUPPLEMENTARY DEGREE
EXAMINATION, APRIL 2026**

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 1/5 weightage.*

1. In a competitive market, if the expected future price of a good increase, the equilibrium price of the future good will :
 - (a) Increase.
 - (b) Decrease.
 - (c) Remain unchanged.
 - (d) Vary depending on other factors.
2. The Walras' Law in general equilibrium analysis states that :
 - (a) Demand and supply must always be equal in every market.
 - (b) The total value of supply must be equal to the total value of demand in an economy.
 - (c) Economic agents always make rational decisions to maximize their utility.
 - (d) Market prices will adjust to ensure equilibrium is achieved.
3. A positive externality exists 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 equal to the private cost.
 - (d) The social benefit of production is less than the private benefit.
4. Adjustment for risks in investment refers to :
 - (a) Increasing the expected return on investment.
 - (b) Reducing the expected return on investment.
 - (c) Accounting for the potential variability in returns due to uncertainties.
 - (d) Ignoring the risks associated with an investment.

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5. Public goods are characterized by :
 - (a) Rivalry in consumption and excludability.
 - (b) Rivalry in consumption and non-excludability.
 - (c) Non-rivalry in consumption and excludability.
 - (d) Non-rivalry in consumption and non-excludability.
6. Utilitarianism as a criterion of social welfare focuses on :
 - (a) Maximizing the total happiness or welfare of society.
 - (b) Prioritizing the welfare of the most disadvantaged individuals.
 - (c) Ensuring a fair distribution of resources and opportunities.
 - (d) Promoting individual freedom and autonomy.
7. Property rights are important in addressing externalities because they :
 - (a) Limit individual freedom and autonomy.
 - (b) Establish legal ownership and control over resources.
 - (c) Eliminate the possibility of externalities.
 - (d) Create barriers to trade and economic growth.
8. Moral hazard refers to a situation where :
 - (a) One party exploits its information advantage over the other party.
 - (b) Both parties in a transaction have perfect information.
 - (c) One party changes its behaviour after the transaction is agreed upon.
 - (d) Both parties in a transaction share information openly and honestly.
9. Nominal interest rates refer to :
 - (a) Interest rates that are adjusted for inflation.
 - (b) Interest rates that are not adjusted for inflation.
 - (c) Interest rates set by the central bank.
 - (d) Interest rates offered on short-term loans.
10. Behavioural economics challenges the traditional assumption of economic rationality by emphasizing :
 - (a) The role of government intervention in the economy.
 - (b) The importance of market competition and efficiency.
 - (c) The influence of cognitive biases and limited decision-making abilities.
 - (d) The need for individuals to maximize their own self-interest.

11. The rule of thumb is a decision-making heuristic that involves :
- (a) Making decisions based on careful analysis and extensive data.
 - (b) Relying on predetermined rules or shortcuts instead of extensive analysis.
 - (c) Seeking input and advice from others before making a decision.
 - (d) Ignoring past experiences and relying solely on intuition.
12. The Arrow's Impossibility Theorem states that :
- (a) There is no perfect voting system that can satisfy all desirable criteria.
 - (b) The government should always intervene to correct market failures.
 - (c) Social welfare is maximized through a perfectly competitive market.
 - (d) An allocation is efficient if it maximizes individual utilities.
13. According to the theory of second best, if one or more market distortions exist, the removal of a single distortion will :
- (a) Restore market efficiency.
 - (b) Create new distortions elsewhere in the economy.
 - (c) Lead to market failure.
 - (d) Have no impact on market outcomes.
14. The management of common property resources often faces the challenge of :
- (a) Excessive government regulation.
 - (b) Lack of demand and market competition.
 - (c) Over exploitation or depletion due to free access and lack of exclusive ownership.
 - (d) Insufficient government intervention and control.
15. The Net Present Value (NPV) method in capital budgeting :
- (a) Considers the absolute profitability of an investment.
 - (b) Compares the present value of cash inflows with the present value of cash outflows.
 - (c) Considers only the cash inflows of an investment.
 - (d) Compares the future value of cash inflows with the future value of cash outflow.

(15 × 1/5 = 3 weightage)

Part B (Very Short Answer Questions)

*Answer any **five** questions.*

Each question carries a weightage of 1.

16. What is the Nudge theory ?
17. Define Future goods.

Turn over

18. What is meant by the Firm's demand for capital ?
19. What is the Free rider problem ?
20. Define moral hazard.
21. What are common property resources ?
22. What are negative externalities in production ?
23. Define Social welfare function.

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

*Answer any **seven** questions.*

Each question carries a weightage of 2.

24. Write a short note on the Reference point.
25. What is Asymmetric information ?
26. Enumerate the ways of correcting market failure.
27. What are the non-diversifiable risks ?
28. Discuss the Scitovsky criterion.
29. Distinguish between real interest rates and nominal interest rates.
30. What is meant by the general equilibrium of exchange ?
31. Describe the concept of adverse selection.
32. What is the relationship between Externalities and Inefficiency ?
33. What is the role of behavioural economics in modern decision-making ?

(7 × 2 = 14 weightage)

Part D (Essay Type Questions)

*Answer any **two** questions.*

Each question carries a weightage of 4.

34. Discuss in detail the Coase theorem.
35. Explain critically the theory of second best.
36. Discuss the salient features of the efficiency wage theory.
37. Describe the significance of the net present value criterion for capital investment decisions.

(2 × 4 = 8 weightage)