Low - risk individuals are willing to pay ₹ 12,000 per year for life insurance, while high– risk individuals are willing to pay a higher permium of ₹ 25,000 per year due to their greater health concerns. The company sets a standard annual premium of ₹ 18,000, promising full coverage for life – threatening health events. Which group is more likely to buy this life insurance plan ? Explain using the concept of adverse selection.

(b) Define moral hazard. You have recently bought a smartphone from Samsung. Samsung offers a protection plan (for two years from the date of purchase) in which your 2 smart phone will be replaced with a new one if it is accidentally damaged or dropped. Explain how this situation may lead to moral hazard. 9, 9

8. Write notes on any **two** : 9, 9

(a) Shut – down point of a firm

(b) Income consumption curve

(c) Economies and diseconomies of scale

***

[This question paper contains 4 printed pages]

Your Roll No. : ....

Sl. No. of Q. Paper : **683** **I**

Unique Paper Code : 6132351103

Name of the Paper : Microeconomics for Insurance

Name of the Course : **B.A. (VS) Insurance Management-NEP**

Semester : I

Time : 3 Hours ***Maximum Marks : 90***

Instructions for Candidates :

(a) Write your Roll No. on the top immediately on receipt of this question paper.

(b) Attempt any **five** questions.

(c) Part of the questions to be attempted together.

(c) **All** questions carry equal marks.

1. (a) Using suitable diagram, explain consumer surplus, producer surplus and efficiency of the markets.

(b) How is the burden of a tax divided between buyers and sellers ? What factors determine this sharing of burden. Explain your answer with a diagram. 9, 9

2. (a) Explain meaning and importance of price elasticity of demand.

   (b) Explain the cross elasticity of demand. Suppose price of coffee in 50 paise per cup then demand for tea is 50 cups. If the price of coffee rises to 70 paise per cups, then demand for tea goes up to 100 cups. Find cross elasticity of demand for tea. 9, 9

3. (a) Draw and explain through different indifference curves when two goods X and Y are Perfect substitute and Perfect complementaries of each other.

   (b) Using suitable diagram explain the decomposition of price effect into income effect and substitution for an increase in price of normal goods. 9, 9

4. (a) Explain with suitable diagram, how the long run average cost curve is derived from short – run average cost curve ?

   (b) Diagrammatically explain the relationship of different cost curves (MC, AVC, MC, AFC) in short period. 9, 9

5. (a) Using suitable diagram explain the Expansion path. Under what conditions would it be a straight line ?

   (b) Explain the isoquants and iso – cost line. How can we use isoquants and iso – cost line to analyse both cost minimization and output maximization. Illustrate using suitable diagram. 9, 9

6. (a) What are the features of Monopoly ? How does a monopolist achieve equilibrium in the short run ? Explain using suitable diagrams.

   (b) Explain the first degree price discrimination. Is there consumer surplus in first degree price discrimination ? Explain with suitable diagram and give reasons in support of your answer. 9,9

7. (a) What is adverse selection ? An insurance company offers a life insurance plan for individuals aged between 40 to 60. People in this age range can generally be divided into two categories : low – risk individuals, who lead active and healthy lifestyles and high – risk individuals, who have health issues or engage in riskier lifestyle behaviours.