Exam.Code:716
Sub. Code: 5525

1125

Master of Business Economics

Third Semester

Group –A: Banking and Insurance

MBE-7104: Decision Making Under Uncertainty

Time allowed: 3 Hours

Max. Marks: 80

NOTE: *Attempt five questions in all, selecting one question from each unit. All questions carry equal marks.*

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UNIT- I

I. Discuss the technique of combination of forecasts? What are its benefits?

II. Why is an insurance company likely to behave as if it were risk neutral even if its managers are risk averse individuals?

UNIT – II

III. What is a dominant strategy? Why is an equilibrium stable in dominant strategies?

IV. What is meant by "first move advantage"? Give an example of gaming situation with a first mover advantage.

UNIT – III

V. Explain the difference between adverse selection and hazard in insurance market. Can one exist without the other?

VI. Why might a seller find it advantageous to signal the quality of a product? How are guarantees and warranties a form of market signaling?

UNIT – IV

VII. What are the four major sources of market failure? Explain briefly why each prevents the competitive market from operating efficiently.

VIII. How is the production possibilities frontier related to the production contract curve?

UNIT – V

IX. Defined the following terms:-
   a) Stochastic process
   b) Bernoulli process
   c) Brownian motion

X. Explain Markov chain, continuous time Markov process and its application in finance.

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