ECON1005 Assignment 9

1. The noise inflicted on bystanders by users of chain saws, lawn mowers, and motorcycles is an example of

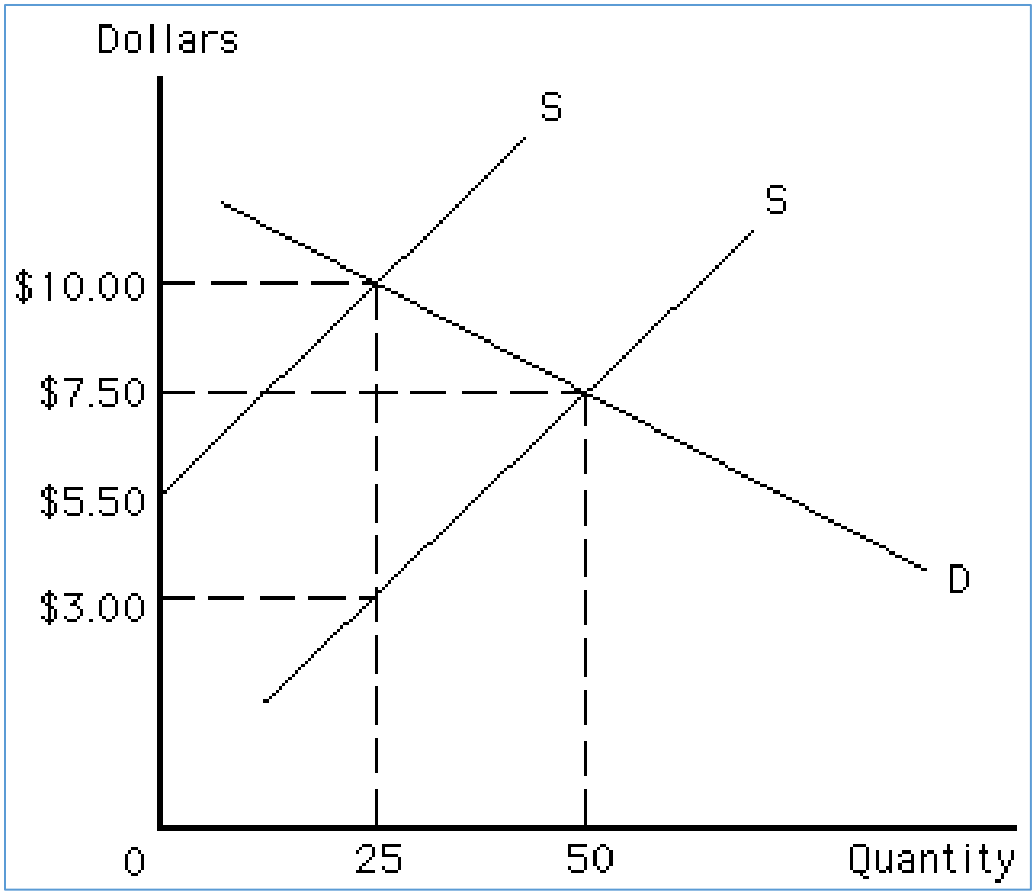
a. a positive externality
b. a public good
c. nonexcludability
d. marginal social cost exceeding marginal private cost
e. marginal private cost exceeding marginal social cost

2. All of the following are examples of negative externalities except

a. getting the flu vaccine.
b. smoking in a crowded bar.
c. driving while intoxicated.
d. littering in the park.
e. pouring chemical waste into the sea.

3. The marginal social cost (MC^S) curve

a. lies above the market demand curve
b. lies below the market supply curve
c. is perfectly elastic at the market price
d. is perfectly inelastic
e. indicates the total cost of production to the society, when all costs are considered



4. Suppose that production of the product in the above figure imposes a cost on society of $7.00 per unit. If the free market equilibrium is at the intersection of demand curve D and supply curve S, what should the government do to internalize the externality?

a. impose a tax of $2.50 per unit
b. reduce the market output level by approximately 39 units
c. impose a tax of $350 per period
d. impose a tax of $7.00 per unit
e. impose a tax of $175 per period

5. If consumption of a good creates positive externalities, then

a. the market will under produce it
b. the market will over produce it
c. the market must be perfectly competitive
d. the market must be constrained by barriers to entry
e. the market will produce the most efficient quantity

6. If a market is subject to a positive externality

a. the marginal social benefit curve will be above the demand curve representing private benefit

b. the marginal social benefit curve will be the same as the demand curve representing private benefit
c. the marginal social benefit curve will be below the demand curve representing private benefit
d. private benefit will exceed social benefit
e. the marginal social cost curve will be above the supply curve representing private cost

7. According to the Coase Theorem
a. when side payments are costly, the private market can solve any externality problem
b. government intervention is needed to solve a negative externality problem
c. government intervention is needed to solve a positive externality problem
d. when side payments can be costlessly negotiated, the private market will solve any externality problem
e. recourse to the legal system is the only way of eliminating negative externalities

8. Because of the free rider problem
a. private solutions to externality problems are often needed
b. side payments are needed in order to achieve Pareto improvements
c. governmental solutions to externality problems are often needed
d. side payments are needed in order to solve externality problems
e. private solutions to externality problems are common

9. Rebecca and Leah are roommates. Rebecca likes to study with the music playing loudly and Leah needs quiet when she studies. Rebecca would be willing to pay $5 a night to hear music while Leah would be willing to pay $10 a night for the quiet. In this situation,
a. Leah should pay Rebecca $7.50 a night to not listen to music, because that would be a Pareto improvement (i.e., making someone better off without harming another)
b. Rebecca should stop listening to music because that would be a Pareto improvement
c. There is no action that would create a Pareto improvement
d. Rebecca should pay Leah $7.50 a night to listen to music, because that would be a Pareto improvement
e. Leah should pay Rebecca $4.50 a night to not listen to music, because that would be a Pareto improvement

10. Public goods are
a. rival in consumption and their benefits are excludable
b. nonrival in consumption and their benefits are excludable
c. nonrival in consumption and their benefits are nonexcludable
d. rival in consumption and their benefits are nonexcludable
e. all the goods provided by the government

11. A good is said to be excludable if
a. those who do not pay for it can be prevented from consuming it
b. those who do not produce the good can be prevented from consuming it
c. it is not traded in a public market
d. there is no rivalry in consuming it
e. its use can be continued indefinitely

12. The total demand for a public good is found by
a. horizontally summing all individual demands
b. vertically summing all individual demands
c. finding the demand from the average consumer
d. dividing the marginal cost of the good by the number of consumers
e. None of the above

13. The efficient quantity of a pure public good occurs when the marginal cost of producing that unit of good
a. is larger than the sum of all individuals' willingness to pay for that unit of good
b. equals the sum of all individuals' willingness to pay for that unit of good
c. equals the sum of all individuals' willingness to pay divided by the number of consumers
d. is larger than the sum of all individuals' willingness to pay divided by the number of consumers
e. None of the above

14. In the case of a good that has no exclusion and no rivalry, provision of the goods by voluntary contributions fail because
a. of free riding problems
b. this is a natural monopoly
c. profit is driven down to zero
d. the quantity produced will exceed the social optimum
e. voluntary contribution is not allowed by the government

15. A movie at the movie theater is an example of a good that is
a. both non-rival and non-excludable
b. both rival and excludable
c. rival but non-excludable
d. non-rival but excludable
e. rival but whose consumption creates negative externalities