

Chapter 7 Q and A without Answers

1. Your friend Seltic wants to study more. You realize that when *you study*, he is more likely to study. Your increased desire to study is _____ and if you ignore this effect Seltic will study _____ than the socially optimum level.
 - a. a positive externality; more
 - b. a positive externality; less
 - c. a negative externality; more
 - d. a negative externality; less
2. Rick recently moved into an apartment complex that is located next to an extremely busy highway. Rick plays his stereo pretty loudly, but its sound is indistinguishable from the noise of the traffic. The noise created by Rick's stereo is an example of
 - a. a positive externality.
 - b. a negative externality.
 - c. a negligible externality.
 - d. both a negative and a positive externality.
3. London and Stockholm each use congestion charges to discourage driving. Which city has the best system and why?
 - a. London because they established a flat-price congestion charge.
 - b. London because they established a dynamic-price congestion charge.
 - c. Stockholm because they established a flat-price congestion charge.
 - d. Stockholm because they established a dynamic-price congestion charge.
4. A roofing company decides to fix the leaky roof during your scheduled class. The noise impairs the ability of you and the others in class to learn the material. This is a
 - a. positive externality
 - b. negative externality
 - c. a negligible externality
 - d. public good
5. A group of friends goes out to eat together and they agree to split the bill equally. They order a series of tapas, or small dishes to share. However, the best dishes get consumed very quickly while the less appetizing dishes go largely uneaten. What economic concept explains why the best tapas are consumed so quickly?
 - a. It is a private property problem
 - b. It is a common property problem
 - c. Tapas are a public good
 - d. It is a free rider problem
6. How would alter your transportation decisions if you had to pay for the pollution (a social cost) that your vehicle creates?
 - a. You would drive more to make sure that you get the full benefit from owning and operating the car.
 - b. You would drive more if you were poor and less if you were wealthy.

- c. You would drive less since the social cost (of pollution) is now be considered part of the private cost of driving.
 - d. You would drive the same amount; the social cost is a negligible externality.
7. Which type of congestion charge will be the most effective at managing traffic flow?
- a. A single congestion price
 - b. A dynamic congestion price
 - c. A gasoline tax for all car drivers
 - d. Raising vehicle registration fees
8. If government regulations force a business to take into account social costs, it will
- a. reduce price and cuts its pollution.
 - b. increase price and increase the amount of pollution.
 - c. reduce production and charge a higher market price.
 - d. increase production and charge a lower market price.
9. Which of the following would be viewed as a common property problem?
- a. Your property is burglarized.
 - b. Vandals damage your property.
 - c. People pick all of the flowers in a public park.
 - d. To be safe you must lock your door at night.
10. When social and private costs differ, economists state that
- a. there will be economic profit in the society.
 - b. the society will produce inside the production possibilities frontier.
 - c. there is an externality.
 - d. there is not an efficiency problem, but there is an equity problem.
11. If a firm does not have to take social costs into account, it will establish a private optimum where
- a. there is reduced production and it charges a higher market price.
 - b. there is increased production and it charges a lower market price.
 - c. it reduces price and cuts its pollution.
 - d. it increases price and increases the amount of pollution.
12. Generally speaking, the government is better at providing public goods than the market is, because public goods are:
- a. excludable
 - b. non-excludable
 - c. rival
 - d. non-rival
13. My neighbor has a large satellite dish on his roof that blocks sunlight into my house. Since I need my sun, I talk to him and I agree to pay him \$200 and he switches to basic cable and takes down the satellite dish. We reached this agreement because

- a. it was a positive externality
- b. it was a negative externality
- c. when the transactions costs are low people have an incentive to find solutions to private property problems.
- d. government regulations

14. You enjoy watching UT compete during March Madness on cable television while eating a pizza with your friends. Where would you place cable television and pizza on the following grid? They need not be in the same box.

	Excludable	Non-Excludable
Rival		
Non-Rival		

15. Which of the following is the best example of a public good?

- a. Fish in the ocean
- b. Public school
- c. Community swimming pool
- d. National defense

16. Connect each description on the left with the appropriate term on the right.

Membership in a sorority	Club good
A rainbow	Private good
A Drake t-shirt	Public good
Fishing on the Colorado River	Common resource good

17. Consider a public television station that relies on donations to maintain operation. Herman enjoys watching this channel a lot, but he does not donate any money to keep the channel alive. Herman is:

- a. a jerk
- b. a free-rider
- c. an opportunity-seeker
- d. an advantage-seeker

18. My neighbor has a rooster that crows at the break of dawn. I like to sleep in, so I give my neighbor \$100 and she sells the rooster. This solution is most consistent with:

- a. The Coase Theorem.
- b. The Laffer Principle
- c. The externality formula.
- d. The chicken-egg paradox

19. In order to encourage more recycling, we

- a. should sign the Paris climate accord.
- b. give everyone cloth bags to use instead of plastic.
- c. should price curbside trash service by weight.
- d. outlaw the use of all plastics.

20. What is the optimal amount of pollution?

- a. Zero, duh!
- b. Not zero, but there are no negative health consequences.
- c. Occurs where the MB of abating pollution is equal to the MC of abating pollution.
- d. The amount of pollution that allows the economy to grow the fastest.

21. If society taxes polluting firms to achieve the socially optimal level of production, this leads to _____ prices and _____ output.

- a. higher; higher
- b. lower; higher
- c. lower; lower
- d. higher; lower

22. Suppose your brother likes to flash a strobe light, but it disturbs you. The table below reflects your happiness under both scenarios. Assume your brother has the right to use the strobe light. Negotiation is costless.

	No strobe light	Strobe light
Your brother	\$25/month	\$50/month
You	\$75/month	\$25/month

What is one possible Coasian solution?

- a. Your brother pays you \$50 to use the strobe light.
- b. Your brother pays you \$25 to use the strobe light.
- c. You pay your brother \$75 so he will not use the strobe light.
- d. You pay your brother \$44.44 so he will not use the strobe light.

23. My neighbor and I share a property line but there is no fence. She lets her dog out each morning and it poops on my property. I asked her to clean up or build a fence, she noted that there is no leash law for dogs where we live and said it was not her problem. I decide to build a fence around my property.

- a. this is an example of a negative externality.
- b. this is an example of internalizing an externality.
- c. this is an example of a negligible externality.
- d. this is an example of the tragedy of the commons.
- e. this is an example of a club good.

24. For each of the following, use a graph to show the private market equilibrium and how it differs from the social optimum.

- a. The market for natural gas when the process used to extract natural gas from the earth leads to environmental damage.
- b. The market for cigarettes when one person's consumption of cigarettes can harm others (because of second-hand smoke).
- c. The market for solar panels for people's homes given that the use of solar panels can help reduce pollution by reducing the demand for electricity from coal plants.

25. Is the following statement true or false? Explain. "There are externalities in every market because when consumers purchase more of a good, it drives up the price for everyone else. This imposes an additional cost on society and implies that all goods are overproduced."

27. Suppose the supply curve for jet ski rentals on Mission Bay is given by $P=2+0.1Q$, where P is the daily rental fee per jet ski in dollars and Q is the number of jet skis rented each day. The demand curve for jet skis is given by $P=20-0.2Q$.

- a. If each jet ski imposes a \$6 per day cost on others (because they are so noisy), by how much will the equilibrium number of jet skis rented each day exceed the socially optimal number?
- b. How would the imposition of a tax of \$6 on each jet ski rental affect efficiency in this market?

28. You and your roommate need a break after taking midterms. For spring break, you decide to go camping together in Shenandoah National Park. After hiking for a few hours, you find a fantastic secluded spot near a small lake and set up camp for the week. The next day when you come back from fishing, you find out that another group of students has set up their camp right next to you. You realize after seeing the cases of beer they brought with them that they are not there to relax and most likely will disturb your peace and quiet. Can you use the Coase theorem to resolve this conflict?

Suppose that the nearby campers impose a cost of \$300 on you and your roommate. If they had to move to a campsite where they could make as much noise as they wished, they would incur a cost of \$100. Think of this as the cost of

having to physically pack up their stuff and hike to another site. If they stayed and had to be quiet and not disturb you, they would incur a cost of \$200. The park rules specify that whoever arrived first has a right to an undisturbed camping spot. Which of the following outcomes would be consistent with the Coase theorem?

b. Now suppose that the park rules specify that people have a right to pitch their tent wherever they want and can make as much noise as they want. Which of the following outcomes would be consistent with the Coase theorem?