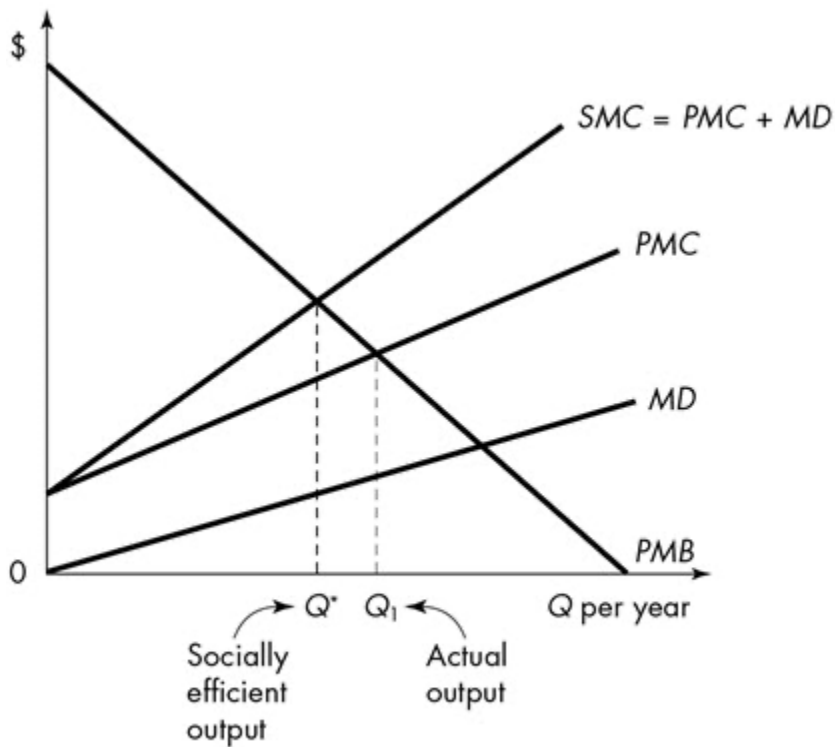


- 1) An externality occurs when the activity of one entity directly affects the welfare of another that is transmitted by market prices.
- A) True
  - B) False

- 2) When an activity produces a positive externality, too much of it is produced relative to the efficient level.
- A) True
  - B) False

3) In the following figure, if the marginal damages line did not originate at 0,



- A) it would mean that marginal damages did not exist.
- B) there is no way to find SMC.
- C) SMC would not originate at the same intercept as PMC.
- D) Both PMC and SMC would not originate at the same intercept as PMC.

- 4) Private individuals acting on their own may avoid the inefficiencies of externalities through:
- A) avoiding bargaining between disputing parties.
  - B) not internalizing externalities.
  - C) establishing social conventions.
  - D) avoiding the costs of bargaining.

- 5) Carbon taxes impose an equal burden across households of all income types.
- A) True
  - B) False

- 6) A subsidy for not polluting can induce producers to pollute at the efficient level.
- A) True
  - B) False

7) A tax levied on each unit of pollution is

- A) an income tax.
- B) an emissions fee.
- C) a flat tax.
- D) a Pigouvian tax.

- 8) As a general rule, zero pollution is not socially desirable because
- A) there would be no production.
  - B) Environment Canada needs to have something to do.
  - C) pollution does not do any harm.
  - D) zero pollution would cause an inflationary pressure in the economy.



- 9) A Pigouvian tax is equal to
- A) the social marginal cost.
  - B) the price that reduces pollution to zero.
  - C) the marginal benefit done at the efficient level of output.
  - D) the marginal damage done at the efficient level of output.

## **Answer Key**

- 1) B
- 2) B
- 3) C
- 4) C
- 5) B
- 6) A
- 7) B
- 8) A
- 9) D