

# Environmental Economics

## ENVR/ECON/SOSC 2310

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2019 Spring



# Midterm

- Midterm: Mach 21, 10:30 to 11:45 am
- Materials:
  - Chapters 1-7



# No cheating!

- ❖ The university takes cheating very seriously
- ❖ HKUST Academic Integrity and Honor Code  
(<http://ugadmin.ust.hk/ug-guide/integrity/index.html>)
- ❖ The Code will be **STRICTLY** enforced. Any student observed cheating on exams will receive **F** for the course. Any violation of the code will be reported to the University WITHOUT EXCEPTIONS

# Final Exam

- Final: 24 May
- 12:30 - 15:30 TST Art Hall
  - 24 May 2019
  - 12:30 to 15:30
  - Tsang Shiu Tim Art Hall





# Midterm Logistics

- It is **closed-book**.
- **No calculators**.
- Please bring ruler, eraser, pencil, pen, etc.
  - **Ruler** is important for you to draw graphs
- Please bring your **student ID** so that the TA can check.



# Sample Questions

- Explain the following concepts using 3~4 lines (with example if necessary)
  - Price ceiling
  - Positive externality
  - Minimum wage



# Multiple Choices

- 1. If the price of a good is below the equilibrium price,
  - A. There is a shortage (i.e. an excess demand) and the price will rise.
  - B. The quantity demanded is not equal to the quantity supplied and the price will change.
  - C. There is a surplus (i.e. an excess supply) and the price will rise.
  - D. There is a shortage (i.e. an excess demand) and the price will fall.
- 2. When a tax distorts incentives to buyers and sellers so that fewer goods are produced and sold than otherwise, the tax has:
  - A. Caused a deadweight loss
  - B. Decreased equity
  - C. Generated no tax revenue
  - D. Increased efficiency



# Sample Questions

- 3. Private markets fail to account for externalities because
  - A. Externalities don't occur in private markets
  - B. Sellers include costs associated with externalities in the price of their product
  - C. Decision makers in the market fail to include the costs of their behavior to third parties.
  - D. The government cannot easily estimate the optimal quantity of pollution
- 4. A positive externality
  - A. Causes the product to be overproduced.
  - B. Provides an additional benefit to market participants.
  - C. Benefits consumers because it results in a lower equilibrium price.
  - D. Is a benefit to a market bystander.





# True or False (Explain)

- 1. A rent control policy will generate a smaller deadweight loss in the long run.
- (False)
- 2. If there are no transaction costs, how we distribute the pollution rights (permits) initially will not affect the equilibrium pollution levels because firms will buy/sell the permits.
- (True, recall Coase Theorem)

