

Questions

(Ch. 8.7) There's a gas shortage in Gasland. You're presented with two proposals that will achieve the same level of reduction in the use of gas. Proposal A would force everybody to reduce their gas consumption by 5%. Proposal B would impose a 50-cent tax on the consumption of a gallon of gas, which would also achieve a 5 % reduction. Consumers can be divided into two groups: one group whose demand is elastic, and another whose demand is inelastic.

- a) How will the proposals affect each group?
- b) Which group would support the regulatory policy (A)? Which would support the tax policy (B)?

Questions

(Ch. 8.8) Economists studied the effect of Charlottesville, VA moving from charging a flat fee for garbage collection to charging \$0.80 per 32-gallon bag and found the following: the **weight** of garbage collected fell by 14%; the **volume** of garbage collected fell by 37%; and the weight of recycling rose by 16%.

- a) Why did recycling increase and garbage collection decrease?
- b) Why did the weight fall by less than the volume?
- c) Demonstrate, using supply and demand curves, the effect of the change in pricing on the volume of garbage collected.