

ARE 201 Spring 2009 HW #7

Due Date: Thursday April 16th, 2009 before class

MULTIPLE CHOICE

1. In the market for a good like ice-cream cones,
 - a. an inefficient number of ice-cream cones will be produced.
 - b. the sum of producer surplus and consumer surplus is minimized.
 - c. price adjusts to balance supply and demand.
 - d. the price established in the market will not reflect the value of ice cream cones to consumers.
2. A good is excludable if
 - a. one person's use of the good diminishes another person's enjoyment of it.
 - b. the government can regulate its availability.
 - c. it is not a normal good.
 - d. people can be prevented from using it.
3. Both public goods and common resources are
 - a. rival.
 - b. nonrival.
 - c. excludable.
 - d. nonexcludable.
4. The privately-owned school system in Smalltown has a virtually unlimited capacity. It accepts all applicants and operates on both tuition and private donations. Although every resident places value on having an educated community, the school's revenues have suffered lately due to a large decline in private donations from the elderly population. Since the benefit each citizen receives from having an educated community is a public good, which would NOT be true?
 - a. The free-rider problem causes the private market to undersupply education to the community.
 - b. The government can potentially help the market reach a socially optimal level of education.
 - c. A tax increase to pay for education could potentially make the community better off.
 - d. The private market is the best way to supply education.
5. When a free-rider problem exists
 - a. too few resources are devoted to the good.
 - b. the cost of the good will always be more than the benefit of the good.
 - c. the good will not be produced.
 - d. entrepreneurs will eventually find a way to make free-riders pay their share.
6. The value and cost of goods provided in an economy are easier to determine when those goods are
 - a. private goods.
 - b. public goods.
 - c. common resources.

- d. natural monopolies.
7. Externalities are present in a market whenever
- a. a shortage exists.
 - b. the price is higher than equilibrium price.
 - c. private costs differ from social costs.
 - d. the seller is not making a profit.
8. Each of the following would be considered a common resource EXCEPT
- a. clean air.
 - b. congested roads.
 - c. national defense.
 - d. open grazing land.
9. Road tolls used to reduce traffic can be desirable because of each of the following EXCEPT
- a. they charge people based on consumption.
 - b. they can help bring usage closer to its optimal level.
 - c. rates can differ according to the time of day.
 - d. the administrative costs are virtually nonexistent.
10. Consider the following problems: Overcrowded public highways, overfishing in the ocean, polluted air, and the near-extinction of the wild rhinoceros. What do these problems all have in common?
- a. Private markets could easily solve them if governments let the markets function.
 - b. They would all go away if an intensive public-information campaign were made.
 - c. They are all the result of a failure to establish clear property rights over something of value.
 - d. They are all the necessary result of market economies.

TRUE/FALSE

- 1. There are no goods in this day and age that can be consumed without paying for them.
- 2. When one person enjoys the benefit of national defense, he (or she) reduces the benefit to others.
- 3. In some cases the government can make everyone better off by raising taxes to pay for certain goods that the market fails to provide.
- 4. Some goods can switch between being public goods and private goods depending on the circumstances.
- 5. In the Tragedy of the Commons, joint action among the individual citizens would be necessary to solve their common resource problem, if government did not intervene.

SHORT ANSWER
APPLICATION/SCENARIO

The government often intervenes when private markets fail to provide an optimal level of certain goods and services. For example, the government imposes an excise tax on gasoline to account for the negative externality that drivers impose on one another. Why might the private market not reach the socially optimal level of traffic on the road without the help of government?