

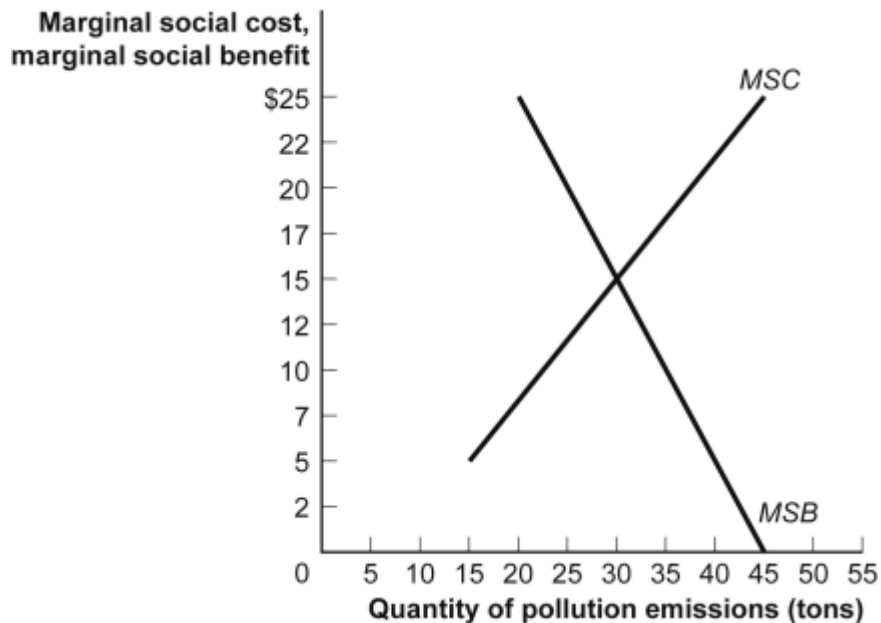
Name: _____ Date: _____
Econ 2010 sec. 100
Final: **Version 2**
Fall 2010

There are 88 questions on this exam spread over 20 pages.

1. George has many tattoos on his body that the public finds offensive. George also likes walking around without much clothing on. This leads to a situation where George is displaying more tattoos than is socially efficient. Which of the following would be a **Coasian** solution to the problem?
- A) A tax on the number of tattoos that George displays.
 - B) A law forbidding George from displaying tattoos.
 - C) A law clarifying property rights, that says that George cannot have tattoos showing unless everyone is OK with it. In this case, society could end up with the socially optimal amount of tattoos on George because George has an incentive to bribe people so he can go naked.
 - D) None of the above.

Use the following to answer questions 2-3:

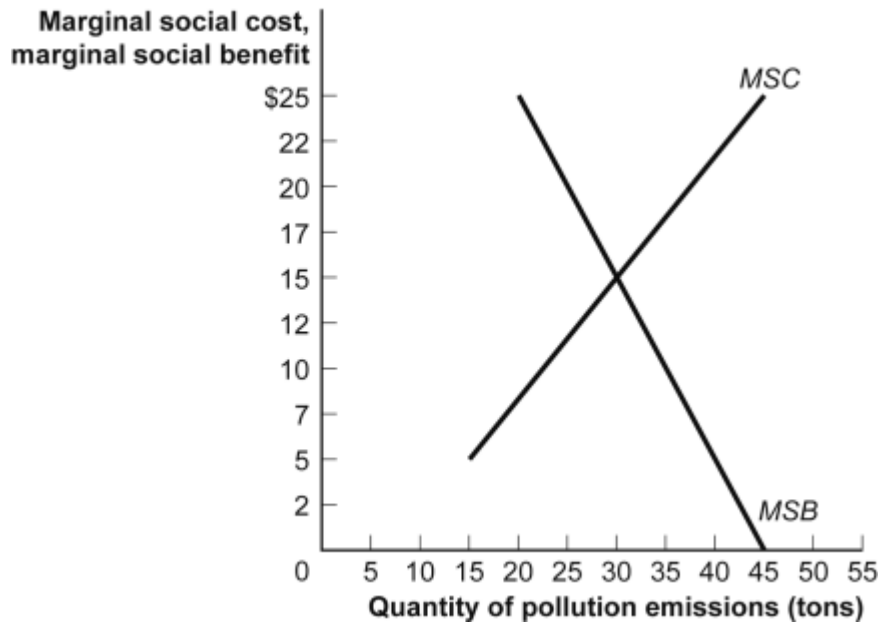
Figure: Efficiency and Pollution



2. (Figure: Efficiency and Pollution) If the government imposed an environmental standard that did not allow the quantity of pollution to exceed 20 tons, there would be:
- A) a socially optimal quantity of pollution.
 - B) too much pollution, because the marginal social cost of pollution would exceed the marginal social benefit of pollution.
 - C) too much pollution, because any pollution is too much pollution from an economist's perspective.
 - D) too little pollution, because the marginal social benefit of pollution would exceed the marginal social cost of pollution.
3. (Figure: Efficiency and Pollution) If the government imposed an environmental standard that did not allow the quantity of pollution to exceed 30 tons, there would be:
- A) too much pollution, because the marginal social cost of pollution would exceed the marginal social benefit of pollution.
 - B) a socially optimal quantity of pollution.
 - C) too little pollution, because the marginal social benefit of pollution would exceed the marginal social cost of pollution.
 - D) too much pollution, because any pollution is too much pollution from an economist's perspective.
4. Joe is a cocaine addict. For him, the marginal utility of consuming the first ounce of cocaine is 15 utils and the marginal utility of consuming the second ounce of cocaine is 20 utils. This behavior is possible, and contradicts the principle of diminishing marginal utility.
- A) True
 - B) False
5. Assume that there are only 2 commodities in this economy. If these two commodities are both bads, a consumer in this economy can achieve a maximum level of utility when _____.
- A) he or she chooses a consumption bundle that maximizes the amount of each commodity.
 - B) he or she consumes a bundle consisting of just one of the commodities.
 - C) he or she consumes nothing.
 - D) None of the above.

Use the following to answer questions 6-9:

Figure: Efficiency and Pollution



6. (Figure: Efficiency and Pollution) The socially efficient quantity of pollution is:
- A) 0 tons.
 - B) 30 tons.
 - C) 45 tons.
 - D) 20 tons.
7. (Figure: Efficiency and Pollution) In the absence of government intervention, the quantity of pollution will be:
- A) 40 tons.
 - B) 30 tons.
 - C) 45 tons.
 - D) 20 tons.
8. (Figure: Efficiency and Pollution) A Pigouvian tax of \$10 will result in a quantity of pollution for which the:
- A) marginal social benefit is less than the marginal social cost.
 - B) marginal social benefit exceeds the marginal social cost.
 - C) marginal social benefit equals the marginal social cost.
 - D) resources are allocated efficiently.

9. (Figure: Efficiency and Pollution) In the absence of government intervention, the marginal social cost of pollution will exceed the marginal benefit of pollution by:
- A) \$25.
 - B) \$16.67.
 - C) \$15.
 - D) \$0.
10. In a society that consists of one individual, which statement best describes the allocation of resources that is socially optimal
- A) It is an equilibrium
 - B) The allocation is efficient
 - C) The individual is doing well
 - D) The individual is doing the best they can given their constraints
11. If the market price of a good decreases, Wilbur's demand curve for the good remaining the same, his consumer's surplus associated with that good increases.
- A) Maybe
 - B) Yes
 - C) No
12. Within a firm, inputs are not allocated by markets.
- A) True
 - B) False
13. Betsy loves to garden and her rose garden is enjoyed by everyone in her neighborhood. Because her consumption of rosebushes provides a positive external effect to her neighborhood, the government should:
- A) provide Betsy a subsidy because the market quantity of rosebushes is lower than the socially efficient quantity.
 - B) provide Betsy a subsidy because the market quantity of rosebushes is greater than the socially efficient quantity.
 - C) impose a tax on Betsy because the market quantity of rosebushes is lower than the socially efficient quantity.
 - D) impose a tax on Betsy because the market quantity of rosebushes is greater than the socially efficient quantity.

14. If both the demand and supply curves for peanut butter (\$ on the vertical axis) shift left
- A) Equilibrium price will rise but we cannot say what will happen to equilibrium quantity
 - B) Equilibrium price will fall but we cannot say what will happen to equilibrium quantity
 - C) Equilibrium quantity will rise but we cannot say what will happen to equilibrium price
 - D) Equilibrium quantity will fall but we cannot say what will happen to equilibrium price
15. Our text, Krugman and Wells, costs \$100. Gerard's WTP is \$95. His consumer's surplus from the book is -\$5.
- A) True
 - B) False
16. In lecture, we looked at an example where Professor Morey's daughter, Fred, was paid \$1 per mile skied. Fred's only cost was the value of her time, \$3 an hour. In order to maximize profit, Fred will ski up the point where her marginal cost equals \$3.
- A) True
 - B) False
17. Both Fred and George can buy as many Cuban cigars as they want at \$5 a cigar. George buys 8/day, Fred, 3/day. George's consumer's surplus from cigar consumption
- A) is smaller than Fred's consumer's surplus from cigar consumption.
 - B) equals Fred's because they both pay \$5/cigar.
 - C) might be smaller than Fred's consumer's surplus from cigar consumption.
 - D) is larger than Fred's consumer's surplus from cigar consumption.
18. Ingrid, when she is in Sweden, and not skiing for CU, consumes only pickled herring and Aquavit (a Swedish type of booze). She loves pickled herring: the more the better, but is indifferent to the amount of Aquavit she drinks. Consider her indifference curves with Aquavit on the vertical axis and herring on the horizontal axis
- A) Ingrid's indifference curves are vertical lines
 - B) Ingrid's indifference curves are flat (horizontal lines)
 - C) Ingrid's indifference curves are upward sloping
 - D) Ingrid's indifference curves are downward sloping

19. With tradable emissions permits, the price of the permit is determined by:
- A) the supply of and demand for permits.
 - B) environmental protection organizations.
 - C) the government.
 - D) the World Trade Organization.
20. For a market commodity ____ is exogenous and quantity is _____. For a nonmarket commodity ____ is exogenous and ____ is endogenous. (choose the best fill-ins)
- A) price, endogenous, quantity, value
 - B) price, exogenous, price, quantity
 - C) price, endogenous, price, value
 - D) price, endogenous, quantity, price
21. Which of the following is an environmental policy based on tradable pollution permits?
- A) paying automobile drivers 10 cents for each 10% reduction in automobile emissions
 - B) allowing automobile drivers to buy and sell the right to a certain level of automobile emissions
 - C) a charge to automobile drivers of 10 cents for 100 units of pollutants emitted
 - D) ignoring pollution and letting private markets operate without government interference
22. Xavier is the only guy town selling "medical" marijuana--he is a monopolist and demand is strong. He can sell 3 tons at \$10k a ton, but if he lowers his price from \$10K a ton to \$9K a ton he can sell 4 tons. For Xavier, the marginal revenue associated with the 4th ton is
- A) \$9K
 - B) \$8K
 - C) \$6K
 - D) \$10K
23. If an individual's consumption of a good directly affects others, the individual will always consume too much of the good from a social efficiency perspective.
- A) True
 - B) False

24. Suppose that your tuition to attend college is \$5,000 per year and you spend \$1,000 per year on books, and \$4000 on rent. If you were working full time instead, you could earn \$20,000 per year, and would live at home, for free, with your mom. What is your opportunity cost of attending college for one year, in \$?
- A) \$25,000
 - B) \$26,000
 - C) \$30,000
 - D) \$20,000
 - E) \$24,000
25. Suppose an emissions tax is imposed on all dairy farms in Wisconsin. This tax would have the effect of:
- A) encouraging the dairy farmers to lower prices.
 - B) increasing the supply of milk in Wisconsin.
 - C) increasing the level of emissions.
 - D) reducing the supply of milk in Wisconsin.
26. Wilma, a rational economic agent, consumes only two goods: torrid romance novels and beer. She had just achieved the utility-maximizing solution in her consumption of the two goods, then the price of torrid novels rises. Adjusting to this event, she will consume:
- A) more novels and less beer.
 - B) less novels and more beer.
 - C) not sure
 - D) less beer and less novels
27. Trades are always voluntary transactions
- A) True
 - B) False
28. If one thought that the world was using up its oil reserves too quickly and one had to choose between oil being extracted and sold by a monopolist vs. oil being extracted and sold by a competitive industry, one would choose the competitive industry.
- A) True
 - B) False
29. In the U.S., is the amount one works outside the home predominately determined by a market transaction?
- A) Yes
 - B) No

Use the following to answer question 30:

Table: Total Cost and Output

Output	Total Cost
0	\$ 10
1	60
2	80
3	110
4	170
5	245

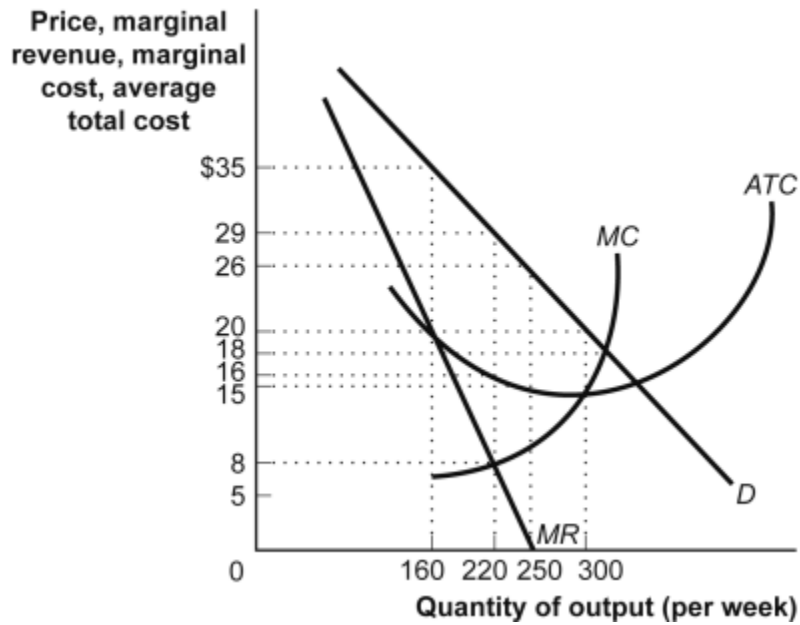
30. (Table: Total Cost and Output) The table describes Bart's perfectly competitive ice cream-producing firm. If the market price is \$67.50, how many units of output will the firm produce?
- A) four
 - B) one
 - C) three
 - D) two
31. You go to college. It costs money, precludes you from working, and is more stressful than not going to college. Given this, stress is part of the opportunity cost of going to college.
- A) True
 - B) False
32. In the theory of the firm, we use "isoquants". Breaking down the term we have "quant" as in "quantity," and "iso" as in "one," meaning every point on an isoquant corresponds to the same quantity. The analogous concept in regards to consumer theory is _____.
- A) Utility
 - B) An Indifference curve
 - C) Preferences
 - D) A budget line

33. Imagine Boulder is required by the Federal Government to reduce its toxic emissions from dry-cleaning facilities by 20%. The Boulder City Council achieves this goal by requiring every such facility in Boulder to reduce their toxic emissions by 20%. Which alternative best describes the result?
- A) The requirement is achieved, but not at minimum cost
 - B) The requirement is achieved efficiently
 - C) The requirement is achieved, but inefficiently
 - D) The requirement is achieved
34. A necessary condition for successful Coasian bargaining is property rights are well defined for the scarce resources in question
- A) True
 - B) False
35. Specialization in production was the starting point for what book in economics that many regard as the beginning of economics?
- A) *The Wealth of Nations* by Adam Smith
 - B) *Free to Choose* by Milton Friedman
 - C) *The General Theory* by John Maynard Keynes
 - D) *Das Kapital* by Karl Marx
36. In a lecture, Edward said, "Efficiency is like _____ more is better, unless it's not."
- A) happiness
 - B) good sex
 - C) money
 - D) chocolate
37. Because Americans eat a lot of meat, and because meat production uses more resources to produce than other types of food, food production in the U.S. is inefficient.
- A) True
 - B) False

38. The model/theory generated the prediction that *George knows calculus but is not God*. Which set of the following assumptions mostly likely generated this prediction.
- A) Assume George is alive. Assume everyone who's name starts with "G" knows calculus
 - B) Assume God does not go by the name of George. Assume God knows calculus
 - C) Assume God is dead. Assume George is alive. Assume everyone who's name starts with "G" knows calculus
 - D) Assume George wears green pants. Assume God never wears green pants. Assume George took calculus in college.
39. Property rights typically include the right to sell the ownership right to the highest bidder.
- A) True
 - B) False
40. The phrase “gains from trade” refers to the:
- A) increase in total output that is realized when individuals specialize in particular tasks and trade with each other.
 - B) profits obtained from sales of a good or service.
 - C) gains that one obtains by taking advantage of a temporary discount or “sale” price.
 - D) gains that one obtains by taking advantage of an uninformed buyer and selling at a higher than average price.
41. Bob's Brewery dumps waste into the Boulder Creek because it is the cheapest way for the brewery to dispose of the waste. The waste negatively impacts the residents in the area because they can no longer use the creek for recreation. Currently, there is no tax or regulation in place to limit Bob's waste disposal. Which of the following is both correct, and most informative?
- A) This is an example of a negative externality.
 - B) This is an example of a negative external effect and a negative externality.
 - C) This is an example of a negative external effect.
 - D) This is an example where the socially optimal level of pollution is occurring.

Use the following to answer questions 42-43:

Figure: A Profit-Maximizing Monopoly Firm



42. (Figure: A Profit-Maximizing Monopoly Firm) This profit-maximizing monopoly firm's price per unit is:
- A) \$35.
 - B) \$20.
 - C) \$29.
 - D) \$26.
43. (Figure: A Profit-Maximizing Monopoly Firm) The profit-maximizing firm in this figure will produce _____ units of output per week.
- A) 250
 - B) 300
 - C) 160
 - D) 220
44. Market failures are things that are inherent to the market that cause the market allocation to be inefficient
- A) True
 - B) False

45. Unregulated markets are designed to increase efficiency, not equity.
 A) True
 B) False
46. Willy can only produce apples and carrots. Willy's production-possibilities frontier can be represented with the function $C=20-2A$ where C is the number of carrots he produces and A is the number of apples he produces. For Willy, the opportunity cost of producing a carrot is ___ and the opportunity cost of producing an apple is ___
 A) 2 apples, 1/2 carrot
 B) 1/2 apple, 2 carrots
 C) 2 apples, 2 carrots
 D) 1 carrot, 2 apples
47. Consider a utility possibilities frontier. Imagine a society must choose between one specific efficient allocation and one specific inefficient allocation. The society will always choose the efficient allocation.
 A) True
 B) False
48. A model (theory) can have only one assumption.
 A) True
 B) False
49. My demand for cigars is $C=12-2P$ where P is the price of cigars and C is the number of cigars I purchase and smoke. Assume the current price of cigars is \$2/cigar. My total willingness-to-pay for cigars is
 A) Not enough information to tell.
 B) \$12
 C) \$16
 D) \$36

Use the following to answer questions 50-51:

Scenario: Private and External Benefits

A small community finds that tidy lawns and neighborhoods provide both private and external benefits. They determine the marginal private benefit (MPB) of lawns can be represented by the following equation: $MPB = 50 - 0.5Q$, where Q is the number of hours spent on keeping lawns tidy. The marginal private cost (MPC) of such lawn upkeep is represented by the following equation: $MPC = 0.5Q$, where Q is again the number of hours engaged in lawn upkeep.

50. (Scenario: Private and External Benefits) Suppose the community is able to estimate the marginal social benefit from lawn upkeep as \$15. Given this information, what is the socially optimal amount of lawn upkeep for this community?
- A) 65 hours
 - B) 0 hours
 - C) 50 hours
 - D) 45 hours
51. (Scenario: Private and External Benefits) Based on the information provided, how many hours of lawn upkeep will occur in this community, and what will the marginal private benefit be of such upkeep?
- A) 100 hours; \$50
 - B) 50 hours; \$25
 - C) 45 hours; \$20
 - D) 50 hours; \$50
52. Karen consumes gasoline and other goods. A new excise tax on gasoline raises gas prices. However, the government pays Karen an income subsidy that is just enough for her to stay on her original (pre-tax) indifference curve. Her new optimal consumption bundle will have:
- A) This question can't be answered, since some essential information (such as Karen's income, the pre- and post-tax prices of gas, etc.) is missing.
 - B) less of other goods and more gas.
 - C) less gas and more of other goods.
 - D) the same amount of both goods as before.
53. Low-skilled workers, most poor, likely want to work more than they can at their equilibrium wage.
- A) True
 - B) False
54. In our George tattoo example in class, efficiency can necessarily be achieved by taxing George, at some appropriate level, for each tattoo he has.
- A) True
 - B) False

55. For an economist, the statement, "I value my friendship with Marc more than I value my friendship with Don." simply means my WTP to have Marc as a friend is greater than my WTP to have Don as a friend.
- A) True
 - B) False
56. Suppose Un's rubber factory belches black smoke in the air during the production process. If the government forces the plant to internalize this external cost with a pollution tax, then we would expect
- A) The private marginal cost of Un producing rubber will increase
 - B) The demand curve for rubber will shift to the left because the price of rubber will rise
 - C) The social marginal cost of Un producing rubber will increase
 - D) The firm's supply curve for rubber will shift to the right
57. Choose the statement that is correct
- A) the slope of an isoquant curve is called the marginal rate of substitution
 - B) the income elasticity of weight is the percentage change in income divided by the percentage change in weight
 - C) for an individual an indifference curve further from the origin is always preferred to an indifference curve closer to the origin.
 - D) indifference curves and isoquants are contour lines
58. If a good that involves external costs is then priced to take these costs into account, then its price would:
- A) not change but output would fall.
 - B) fall and output would go up.
 - C) rise and output would likely fall.
 - D) rise but output would stay the same.
59. I have a ton of old newspapers in my home office. I like them there; Sally, my wife, does not. The current situation is inefficient because? Choose the best possible answer.
- A) Sally's WTP for their removal is more than my WTP to keep them around.
 - B) Sally's WTP for their removal is less than my WTA their removal.
 - C) It is not right for me to clutter up our home with yellowing newspapers.
 - D) Sally's WTP for their removal is more than my WTA their removal.

60. George sneaks up behind Mabel and kisses her, making himself better off and Mabel worse off. If he had to, George would have paid \$50 for the opportunity to sneak up and kiss Mabel. Mabel hates George but is poor, so would have let him kiss her for \$5. The kiss is
- A) Efficiency increasing
 - B) Efficiency decreasing
 - C) Not enough information to tell.
61. Imagine the U.N. requires that carbon dioxide emissions by China and the U.S. be reduced by 100 units, a small percentage of each country's current carbon dioxide emissions. Imagine that in the 100 unit range, the cost, on the margin, of reducing carbon emission is always less in China than in the U.S. This is likely to be the case because China tends to produce heat and energy using more carbon intensely than does the U.S. Given all this, which of the following statements is both most likely and most informative.
- A) The cost-effective way to achieve the required reduction is for some of the reduction to occur in the U.S. and for some of it to occur in China.
 - B) Reducing carbon dioxide emission by 100 units in China (zero units in the U.S.) will cost less in terms of the world's scarce resources because, in the relevant range, the marginal cost of abatement is always lower in China.
 - C) The cost-effective way to achieve the required reduction is for the reduction to occur in the U.S. because production is more efficient in the U.S. than in China.
 - D) Efficiency requires that the 100 unit reduction be achieved by reducing emissions by 100 units in China and zero units in the U.S because labor is abundant in China.

Use the following to answer question 62:

Table: Demand and Total Cost

Quantity (megawatts)	Price per Megawatt	Total Cost
1	\$550	\$1,000
2	500	1,075
3	450	1,200
4	400	1,375
5	350	1,600
6	300	1,875
7	250	2,200
8	200	2,575

62. (Table: Demand and Total Cost) Lenoia runs a natural monopoly firm producing electricity for a small mountain village. The table shows Lenoia's demand and total cost of producing electricity. To maximize profits, Lenoia should charge a price of:
- A) \$450.
 - B) \$350.
 - C) \$400.
 - D) \$500.
63. If the price of gasoline rises and stays high for an extended period of time, we expect people to:
- A) use more public transportation.
 - B) reduce the number of miles they drive.
 - C) buy smaller and more fuel-efficient cars.
 - D) reduce the number of miles they drive, buy smaller and more gas efficient cars, and use more public transportation.
64. The marginal product of labor is:
- A) the change in average product divided by the change in the quantity of labor.
 - B) the change in output that occurs when capital increases by one unit.
 - C) the change in labor divided by the change in total product.
 - D) the slope of the total product of labor curve.
65. I care about only two things: scotch and Swiss chocolate bars. Consider my utility function and indifference curves. My utility function looks like the crater of a volcano: my indifference curves are circles and the quantities of both commodities are positive at the bottom of the crater. Which of the following statements is both correct and most informative?
- A) Scotch and chocolate are both bads
 - B) Scotch is initially a good but then becomes a bad
 - C) Scotch is a good
 - D) Chocolate is initially a bad but then becomes a good.
66. Assume you live in Boulder and like to ski. If Eldora Ski area (20 miles from Boulder) improves in quality (puts in a new high-speed lift and improves snow making) your demand curve for trips to Winter Park Ski area (70 miles from Boulder) will likely
- A) Stay the same or shift to the right
 - B) Stay the same or shift to the left
 - C) Not shift
 - D) Who knows.

67. George makes candy bars; production requires two inputs: chocolate, c , and sugar, s . The constant $MRTS_{cs} = 3/4$. George will likely use both chocolate and sugar to produce his candy bars
- A) True
 - B) False
68. George steals your wallet, making himself better off, and you worse off. Before the theft took place the allocation of resources was necessarily efficient.
- A) True
 - B) False
69. You come home to find that your dog, Killer, is missing. Where he once sat is a ransom note: "\$500.00 or Killer dies." You have \$500.00 in savings earmarked for a new bike. You pay the ransom with that \$500. What is the opportunity cost of your decision?
- A) the bike and a live Killer
 - B) the bike and a dead Killer
 - C) a dead Killer
 - D) the bike
70. I care about only two things: scotch and Swiss chocolate bars. Consider my utility function and indifference curves. My utility function looks like a mountain such that my indifference curves are circles and the quantities of both commodities are positive at the top of the mountain. Which of the following statements is both correct and most informative?
- A) Chocolate is initially a bad but then becomes a good.
 - B) Scotch starts off as a good and then becomes a bad
 - C) Scotch is initially a bad but then becomes a good
 - D) Scotch and chocolate are both bads
71. Which of the following is an example of scarcity
- A) If a city uses an acre of land to build a park there will be less land available for houses.
 - B) If I buy a new house I won't have enough money to go on vacation.
 - C) You choose to stay home and study instead of going to the movies.
 - D) All of these things.
72. The presence of an external negative effect implies the market is failing.
- A) True
 - B) False

73. Suppose that smoking cigarettes creates a negative external effect. If the government does not interfere in the cigarette market, then_____.
- A) The market equilibrium quantity of cigarettes smoked will be the efficient number from society's perspective.
 - B) The market equilibrium quantity of cigarettes smoked will be less than the socially efficient number.
 - C) There is not enough information to answer the question.
 - D) The market equilibrium quantity of cigarettes smoked will be greater than the socially efficient number.
74. Since pollution negatively affects people (reduces utility and/or increases production costs), the efficient amount of pollution is zero.
- A) True
 - B) False
75. If government officials set an emissions tax too high:
- A) there will be too little pollution.
 - B) there will be too much pollution.
 - C) the marginal social cost of pollution will exceed the marginal social benefit of pollution.
 - D) pollution will be unabated.
76. Dollars on the vertical axis, quantity on the horizontal axis. There is a downward-sloping demand curve for mineral water, but the positive supply of mineral water is fixed (supply does not depend on price). The market for mineral water is in equilibrium. Which of the following statements is correct and most informative?
- A) Both producer's and consumer's surplus is positive and the supply curve is vertical
 - B) The supply curve is horizontal, producer's surplus is zero, and consumer's surplus is positive
 - C) Both producer's and consumer's surplus is positive and the supply curve is horizontal
77. Both competitive firms and monopolists face constraints from the market. A competitive firm is constrained by _____ and a monopolist is constrained by_____.
- A) the market demand curve; price
 - B) the market demand curve; the market demand curve
 - C) price; price
 - D) price; the market demand curve

78. Consider the statement, "Pandas are valuable and should be saved from extinction, even though people do not care one way or the other about pandas." This notion of "value" is consistent with how economists define value.
- A) True
 - B) False
79. There are three bundles: A, B, and C. I strictly prefer C to A, I strictly prefer B to C, and am indifferent between A and B. Is my behavior consistent with rationality in the economic sense of the term?
- A) Not enough information to tell
 - B) Yes
 - C) No
80. A move to Commerce City from Boulder would make you worse off. Your WTP to not move is bounded from above by your income/wealth.
- A) True
 - B) False
81. A product produced by a monopolist is likely to be (choose the best answer)
- A) produced at an inefficient level (too little) from society's perspective.
 - B) produced at the efficient and equitable level from society's perspective.
 - C) produced at an inefficient level (too much) from society's perspective.
 - D) produced at the efficient level from society's perspective.
82. A market for a good requires that the property rights for the good are well defined.
- A) True
 - B) False
83. The fact that children starve in market economies proves that the market can fail
- A) True
 - B) False
84. Since talking while driving generates a negative external effect (it makes the roads less safe for others), banning talking while driving would be economically efficient.
- A) True
 - B) False

85. Marginal social cost of an action is the cost of the action that the producer of the action does not pay
- A) True
 - B) False
86. Fill in the blanks to help explain the relationship between marginal revenue and price. For a monopolist _____ and for a competitive firm _____.
- A) $MR = Price$; $MR < Price$
 - B) $MR = Price$; $MR > Price$
 - C) $MR < Price$; $MR = Price$
 - D) $MR > Price$; $MR = Price$
87. Which of the following is an example of a positive externality?
- A) Liquid waste from Sam's chicken farm flows into a neighbor's well water.
 - B) Sam buys a dilapidated house, renovates it, and increases the property values of all houses in the neighborhood.
 - C) Sam has dozens of cats and they come into your yard to hunt the birds that come to your bird bath.
 - D) Sam dug a pond so he could go fishing, but the pond has contributed to an explosion of mosquitoes in your neighborhood.
88. Would Paul and Robin agree, or disagree, with the following statement. "The creation of a second-hand market for our textbook is efficiency increasing even though it makes Paul and Robin worse off."
- A) Agree
 - B) Disagree
 - C) Not sure

Answer Key

1. C
2. D
3. B
4. A
5. C
6. B
7. C
8. A
9. A
10. D
11. A
12. A
13. A
14. D
15. B
16. B
17. C
18. A
19. A
20. D
21. B
22. C
23. B
24. C
25. D
26. C
27. A
28. B
29. A
30. A
31. B
32. B
33. A
34. A
35. A
36. B
37. B
38. C
39. A
40. A
41. B
42. C
43. D
44. A

- 45. A
- 46. B
- 47. B
- 48. B
- 49. D
- 50. A
- 51. B
- 52. C
- 53. B
- 54. B
- 55. A
- 56. A
- 57. D
- 58. C
- 59. D
- 60. A
- 61. B
- 62. C
- 63. D
- 64. D
- 65. D
- 66. B
- 67. B
- 68. B
- 69. B
- 70. B
- 71. D
- 72. B
- 73. D
- 74. B
- 75. A
- 76. A
- 77. D
- 78. B
- 79. C
- 80. A
- 81. A
- 82. A
- 83. B
- 84. B
- 85. B
- 86. C
- 87. B
- 88. A