a. What is the mechanistic view of government? What is the organic view of government? What is the perspective examined in this class?
b. What is normative analysis? What is positive analysis? How can the two be used together?
c. What has happened to the government’s share of GDP in the last 30 years?
d. How can a production possibilities curve be used to model the cost of government production? Use a graph of the production possibilities frontier to support your answer.
e. Is the reduction in private production counted as part of the Government Expenditures portion of GDP? Explain.
f. What is the main point behind each of the figures in chapter 1 (appendix not included)?
g. What are the marginal conditions for efficiency? How do the marginal conditions for efficiency relate to total social benefits and costs?
h. What is the relationship between marginal social benefit and cost at the monopolistic output?
i. What is the Utilities possibility curve? What does it show?
j. What is the relationship between market quantities and efficient quantities when negative externalities are present? What is the relationship when positive externalities are present? Use graphs to support your answers.
k. What is the relationship between marginal social benefits and costs at the market outcome when negative externalities are present? When positive externalities are present? Use graphs to support your answers.
l. What is the relationship between marginal social cost and marginal private costs when a negative externality is present? Use a graph to support your answer.
m. What is the relationship between marginal social benefit and marginal private benefit when a positive externality is present? Use a graph to support your answer.

n. What are the conditions for a market to be efficient (hint, we talked about 5 conditions or assumptions in class)? When all of the conditions for efficiency are met, we sometimes call that a perfectly competitive market.
o. What is the economic definition of efficiency?
p. How does an efficient market equilibrium compare to a monopoly equilibrium? Use a graph to support your answer.
q. Identify in a graph the deadweight loss caused by a monopoly.
r. What is the compensation criterion? Will a move from an inefficient allocation to an efficient allocation be approved by everyone? Why or why not? Use the utilities possibility curve to support your answer.
s. If a tax is imposed in an efficient market, what is the relationship between the efficient quantity and the quantity with the tax?
t. If a subsidy is imposed in an efficient market, what is the relationship between the efficient quantity and the quantity with the subsidy?
u. True or False: If MSC is greater than MSB at a particular quantity, then too little is being produced.
v. Tax revenue for a good is calculated by multiplying the quantity sold by the amount of the tax. If a tax is imposed on a market, what happens to the equilibrium quantity? With the tax imposed, will tax revenues be greater than, less than, or equal to Tax*Market quantity?
w. What is the story behind all of the figures in chapter 2 (appendix not included)?
x. What are the two parts of the Coase Theorem?
y. What are the major differences between emissions standards and market based approaches such as corrective taxes and marketable pollutions rights, to pollution abatement?
z. How can market-based approaches to pollution control work to obtain a given amount of emissions reduction at the minimum possible social cost?
aa. What does it mean to internalize and externality?
bb. What is the difference between a corrective tax and a regular tax. Show graphically. Why does one create a loss of efficiency and the other create a gain of efficiency?
c. How can corrective taxes and subsidies be used to internalize and externality? Include a graph along with your description. Identify the areas of efficiency gain.
dd. Is it true that efficient outcomes are sometimes viewed as inequitable? Use any models we have developed in class to support your answer.

ee. The current competitive market price of fish is $3 per pound. A chemical producer emits effluent into a lake used by a commercial fishing firm. Each ton of chemical output causes a 20-pound reduction in the annual catch of the fishing firm. Assuming that transactions costs are zero and the chemical firm has the legal right to dump effluent into the lake, how much would the fishing firm be willing to pay to induce the chemical firm to reduce chemical output?

ff. True, False, Uncertain, Explain: When a negative production externality exists for a particular good, too much of the good will be produced relative to the efficient outcome. Use a completely labeled graph to support your answer.

gg. True, False, Uncertain, Explain: When a positive consumption externality exists for a particular good, too much of the good will be produced relative to the efficient outcome. Use a completely labeled graph to support your answer.

hh. The private marginal benefit for commodity X is given by 10 - X, where X is the number of units consumed. The private marginal cost of producing X is constant at $5 (graphically, “constant” implies a horizontal line). For each unit of X produced, an external cost of $2 is imposed on members of society.

a. In the absence of any government intervention, how much X is produced?
b. What is the efficient level of production of X?
c. What is the gain to society involved in moving from the inefficient to the efficient level of production?

ii. What is the difference between transfer payments and government purchases?

jj. The price of automobiles currently equals both the marginal social benefit and the marginal social cost at existing annual output. A tax is levied on the sale of cars. Assuming that the tax increases the marginal private cost of sellers, show how it will cause a loss in efficiency in the automobile market.

kk. The supply of paper is described by the following equation:

\[ Q_s = 5,000P \]

Where \( Q_s \) is tons supplied per year and \( P \) is the price per ton. The demand is described by

\[ Q_D = 400,000 - 1,000P \]

Where \( Q_D \) is tons demanded per year. Because of the pollution associated with paper production, marginal external costs of $20 are associated with each ton of paper.

a. Assuming that the paper is sold in a competitive market, what is the market price?
b. How many tons of paper will be produced per year at that price?
c. What is the efficient annual output of paper?

ll. What is the largest single expenditure for state and local governments?

mm. What is the largest single expenditure for the federal government?

nn. What is the largest source of revenue for state and local governments?

oo. What is the largest source of revenue for the Federal Governments?


qq. What are the real costs of government expenditures? Use a diagram to support your answer.

rr. True or False, Explain: The size of the U.S. government is huge relative to other industrial countries.

ss. A senator has calculated the total benefit of the current amount of space exploration at $3 billion. The total social cost of space exploration is currently only $2 billion. The senator argues that a net gain to society would result by increasing the amount of exploration until the total costs rise enough to equal total benefits.

- Is the senator’s logic correct? Why or why not?
- Using a fully labeled graph, show how equating the total social benefit of space exploration with its total social cost will result in more than the efficient output of the good.

tt. In class, we said that the share of ‘transfer payments’ from the government has increased over the last several decades.

- Why do these transfers, which are sometimes referred to as redistributions, cause efficiency loss?
- Why might society choose to redistribute resources from one group to another when doing so reduces the overall size of the economic pie?

uu. The following table shows how the total social benefit and total social cost of summer outdoor concerts in Central City Vary with the number of performances.

a. Add to the table a column for Marginal Social Benefits, Marginal Social Costs, and Total Net Benefits.

b. What is the efficient number of concerts?

c. What criteria did you use to identify the efficient number of concerts?
vv. Suppose the marginal social cost of television sets is $100. This is constant and equal to the average cost of television sets. The annual demand for television sets is given by the following equation: \( Q = 200,000 - 500P \).

- Assume television sets are sold in a perfectly competitive market and draw the market for televisions.
- Calculate the annual number sold.
- Under what circumstances will the market equilibrium be efficient?
- Show in the graph the losses in well-being each year that would result from a law limiting sales of television sets to 100,000 per year.
- At 100,000 sets per year, what is the relationship between marginal social cost and marginal social benefit (i.e. which is bigger).

ww. The market equilibrium price for rice in Japan is $3 per pound in the absence of government subsidies to rice production. However, the government sets the price at $5 per pound and agrees to buy all the rice produced by farmers. Using a graphical analysis similar to that of the text, show how the subsidy program will result in losses in efficiency. Be sure to label your graph completely.

xx. Suppose perfect competition prevails in the market for hotel rooms. The current market equilibrium price of a standard hotel room is $100 per night.

a. Draw the market for hotel rooms and indicate the efficient quantity with \( Q^* \).
b. Use the efficiency criterion to describe why the market equilibrium is efficient.
c. Suppose a $10 per night tax is levied on hotel occupancy and is to be collected by hotel operators. Assume this tax increase the marginal private cost of producers. Show the effect of this tax on the market for hotel rooms. Indicate the size of the tax in the diagram.
d. Describe how the tax will prevent the market from achieving efficient output.
e. Show the loss in net benefits (i.e. the deadweight loss) from hotel use resulting from the tax.

VOCABULARY

1. Coase Theorem
2. Corrective subsidy
3. Corrective tax
4. Externalities
5. Internalization of an externality
6. Marginal External Benefit
7. Marginal External Cost
8. Marginal Private Benefit
9. Marginal Private Cost
10. Negative Externalities
11. Positive Externalities
12. Transaction Costs
13. Efficiency Criterion
14. Equity
15. Marginal Conditions for Efficient Resource Allocation
16. Marginal Net Benefit
17. Marginal Social Benefit
18. Marginal Social Cost
19. Normative Economics
20. Positive Economics
21. Total Social benefit
22. Total Social Cost
23. Utility Possibility Curve
24. Public Finance