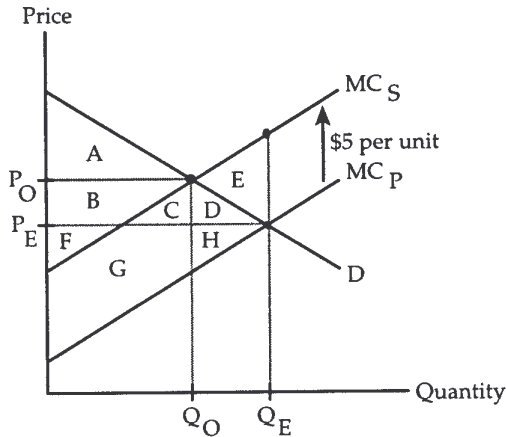


Homework Quiz: Tuesday, December 3

1. The following questions refer to the accompanying diagram, which shows the effects of a negative externality created by an industry's production. The equilibrium quantity in the absence of any attempt to internalize the externality is Q_E and the optimal quantity according to Pigovian analysis is Q_0 .



- i. The external costs imposed by this externality is given by what area in the above diagram?
- ii. Suppose there is no attempt to internalize the externality. Pigovian analysis indicates that the externality creates a deadweight loss equal to what area?
- iii. According to a Pigovian analysis of this externality, when a tax of \$5 per unit is imposed on the firms in this industry, the external costs created by the firms' production will be equal to what area?
- iv. Suppose there are no transactions costs. Also suppose the externality is internalized when the damaged parties offer producers a bribe of \$5 per unit to reduce their production. Coasian analysis indicates that social gain in this situation will equal what area?
- v. According to Pigou, what is the socially optimal quantity?

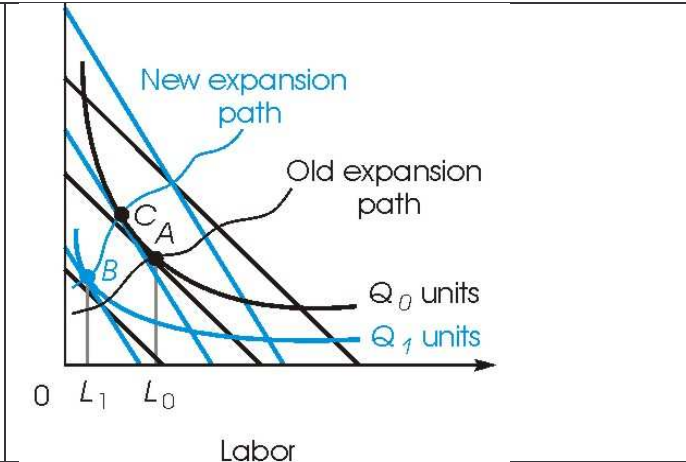
2. Use the following chart to answer the questions below.

	Non Excludable	Excludable
Non Rival	A	C
Rival	B	D

- i. An empty public park falls under square ____
- ii. A toll bridge not during rush hour falls under square ____
- iii. A toll bridge during rush hour falls under square ____
- iv. A fishery falls under square ____
- v. Cable television falls under square ____

3. Chapter 14, Problem Set #1

4. The figure shows the effects of a wage _____. The firm starts at point A and ultimately ends up at point B. Point C is an interim point that illustrates certain effects. The movement from A to C is the _____ effect while the movement from C to B is the _____ effect.



5. Chapter 16, Problem Set #4, 5, 6

6. Multiple Choice

- i. The short-run demand curve for labor for a firm in any type of market for its output coincides with
 - a. the upward sloping portion of the marginal revenue product curve.
 - b. the downward sloping portion of the marginal revenue product curve.
 - c. the downward sloping portion of the marginal product curve.
 - d. the marginal labor cost curve.

- ii. An increase in the price of labor will, in the short run, cause a competitive firm's
 - a. marginal cost to increase, the quantity it sells to decrease and therefore reduce the quantity demand of labor.
 - b. price of output to increase, leaving the demand for labor unchanged.
 - c. marginal revenue product of labor to decrease and therefore reduce demand for labor.
 - d. marginal revenue product of labor to increase and therefore increase demand for labor.

- iii. If labor and capital are complements in production, then an increase in the amount of capital will
 - a. reduce the firm's demand for labor.
 - b. raise the firm's marginal cost of production.
 - c. cause the scale effect to outweigh the substitution effect.
 - d. increase the labor's marginal product.

- iv. When will a wage increase cause a firm to produce more output in the long-run?
 - a. Always.
 - b. When labor and capital are complements in production.
 - c. When labor is a regressive factor.
 - d. Never.

- v. To maximize its profits, a monopsonist will always hire the quantity of labor at which marginal revenue product of labor
 - a. is downward sloping and equal to the market wage rate.
 - b. is downward sloping and equal to its marginal labor cost.
 - c. minus marginal labor cost is maximized.
 - d. is maximized.

