

Econ 101 Class 17 Questions

1. Which of the following correctly explains the effect of imperfect competition on economic efficiency?

Imperfect Competition...

- A. Enhances efficiency by providing consumers with specific brands.
- B. Reduces efficiency because firms set prices too low.
- C. Reduces efficiency because firms set prices above the marginal cost of production. **
- D. Enhances efficiency by providing firms with an incentive to increase production.

2. The socially optimal amount of cell phone use in class is...

- A. None, because most people can postpone their calls.
- B. Only those calls that have a private marginal benefit greater than the social marginal cost. **
- C. Only those call that have low private marginal cost.
- D. Zero, because cell phone use in forbidden.

The table pertains to questions 3 and 4. The table gives the values of the mill and fishery as a function of the mill's pollution decision.

Decision	Mill Value	Fishery Value
High Discharge	\$3000	\$2000
Low Discharge	\$1000	\$6000

3. The social optimum is ____ discharge because_____.

- A. High, Because the mill loses \$2000 if discharge is low.
- B. High, Because the Fishery could not compensate the Mill from losses due to low discharge.
- C. Low, Because the total value of Mill and Fishery is greater for low than for high discharge. **
- D. Low, Because the Fishery could not compensate the Mill from losses due to low discharge.

4. If the Mill has the right to pollute as much as it wants and bargaining is not costly then...

- A. The Fishery will pay the Mill something over \$2000 to switch to low discharge. **
- B. The Fishery will not be able to reach a bargain resulting in low discharge.
- C. The Fishery will go out of business because of pollution.
- D. The Fishery will pay the Mill something over \$4000 to switch to low discharge.