

Graded Exercise
Efficiency, Market Power and Externalities

Due Date: 9:30, October 29, 2009

1. Problem 3, Chapter 7, Frank and Bernanke, p. 200
2. Problem 8, Chapter 7, Frank and Bernanke, p. 201.
3. Problem 7, Chapter 8, Frank and Bernanke, p. 230.
4. Problem 10, Chapter 8, Frank and Bernanke, p. 231.

5. On the course web page, please find an excel spreadsheet that reports the class demand for Oreo cookies derived from the order forms you filled out several classes ago. Please write an essay in which you answer the following questions. Please write the essay in word and support your analysis by creating graphs in excel and importing them into your word document.
 - a. Use excel to graph the demand schedule for cookies making sure that price is on the vertical axis and quantity on the horizontal axis. Display the graph and describe how it differs from the “text book” straight line demand schedule

 - b. Use excel to compute the elasticity of demand at each price. Create a graph where you show the elasticity of demand at each point on the demand schedule. Display the graph and describe how it differs from the graph you would obtain for the text book straight line demand schedule.

 - c. Use excel to compute marginal revenue at each point on the demand schedule. Create a graph in which you display marginal revenue at each point on the demand schedule. Display the graph and describe how it differs from the graph you would obtain for the text book straight line demand schedule.

 - d. Suppose Michael Salemi wishes to maximize profit and can buy all the Oreo cookie packs he wants at a constant marginal cost of \$0.35. Suppose that Salemi must sell cookies at the same price to all students. What price should Salemi charge? How many cookie packs will he sell? Support your conclusions by specific reference to the data and to calculations you make using the data.

 - e. Suppose Michael Salemi wishes to maximize profit and can buy all the Oreo cookie packs he wants at a constant marginal cost of \$0.35. Suppose that Salemi can divide students into two groups. All students in Group A will pay the Group A price and all students in Group B will pay the Group B price. How should Salemi define the groups? What price should he set for Group A? Group B? How many cookie packs will he sell to Group A? Group B? Support your conclusions by specific reference to the data and to calculations you make using the data.

6. This is a Journal Assignment. It is due on October 29 but will be assessed the next time course journals are collected. Find an article that describes an existing or proposed market on “pollution rights”. Paste a copy of the article in your Journal and write a 200 word essay in which you describe how the market will affect efforts to control pollution. Please argue whether the existence of the market will (or is likely to) increase economic efficiency. Please explain whether or not you support trade in pollution rights in the market you consider.