

Economics 2030

Problem Set 4

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1. A negative externality is a
 - a. cost imposed on sellers
 - b. cost imposed on buyers
 - c. benefit that goes to sellers
 - d. cost borne by people other than the buyer or seller

2. When negative externalities are present in a market
 - a. sellers will be affected but not buyers
 - b. demand will be too high
 - c. the market will still produce an optimal amount
 - d. overuse will occur

3. When a positive externality exists in a market, the benefit to buyers is
 - a. less than the benefit to society
 - b. the same as the benefit to society
 - c. greater than the benefit to society
 - d. zero

4. The Coase theorem may not solve the problems of externalities if
 - a. some people benefit from the externality
 - b. there are costs associated with the externality
 - c. there are few parties involved with the externality
 - d. the number of parties is large

5. If vaccines yield positive externalities
 - a. government should tax vaccines
 - b. people will realize the full benefits of the vaccine, so the demand for vaccines increases
 - c. the private market will underuse vaccines
 - d. the private market will overuse vaccines

6. A Pigovian tax involves
 - a. a tax equal to the amount of a negative externality
 - b. a tax set to reduce pollution to a certain level
 - c. a tradable emission permit
 - d. none of the above

7. When a resource is not owned by anyone, it will be overused. This overuse is referred to as
 - a. internet piracy
 - b. the tragedy of the commons
 - c. collateral
 - d. the free-rider problem

8. Which of the following is NOT an example of a public good?
- a. telephones
 - b. fireworks
 - c. national defense
 - d. (non-satellite) radio programs
9. Resources that are non-rival but are excludable are called
- a. joint goods
 - b. public goods
 - c. common
 - d. private goods
10. An example of intellectual property is
- a. a chocolate candy bar
 - b. a formula for making a chocolate candy bar
 - c. a house
 - d. a tree
11. Labor market tournaments
- a. provide incentives for individuals to work harder
 - b. imply the “winners” earn a lot more than the losers
 - c. imply the gains from success make it worthwhile to compete
 - d. all of the above
12. Firms that make use of brand names attempt to
- a. create more market uncertainties
 - b. overcome problems of adverse selection
 - c. win customers trust
 - d. find ways around the problem of public goods
13. Adverse selection typically results in which of the following?
- a. products in these markets tend to be overpriced
 - b. prices in these markets are not affected
 - c. high quality products drive low quality products out of the market
 - d. low quality products drive high quality products out of the market
14. The harm suffered when employees make decisions that help themselves but harm their employers is called
- a. a public good
 - b. adverse selection
 - c. an agency cost
 - d. none of the above
15. When government transfers wealth to the poor, it actually encourages people to become
- a. less interested in working
 - b. more interested in working
 - c. more concerned about assortative mating
 - d. less concerned about assortative mating

16. An employer engaging in discrimination in hiring Type X workers
- can hire at a lower wage
 - would have to pay more to hire Type X workers
 - pays a higher wage than otherwise
 - none of the above
17. The most important cause of income inequality is probably
- that people differ in education
 - racial discrimination
 - sex discrimination
 - age discrimination
18. Promoting fake terrorism might enhance airport security by
- encouraging security firms to compete
 - providing airport security with feedback
 - ranking the airports by quality of security services
 - all of the above
19. If increasing punishment decreases criminal activity, why not impose the death penalty on all crimes?
- criminals are unlikely to respond to increased penalties
 - increasing penalties will lower the cost of criminal activity
 - it is possible to set the punishment for crime too low
 - there will be decreased marginal deterrence for lesser crimes
20. The “Ford Modeling Agency” view of college makes clear education is
- a technological change
 - a gift
 - a signal
 - an investment

Answers are listed below.*

* 1) d, 2) d, 3) a, 4) d, 5) c, 6) a, 7) b, 8) a, 9) a, 10) b, 11) d, 12) c, 13) d, 14) c, 15) a, 16) c, 17) a, 18) d, 19) d, 20) c