

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) An externality is defined as
 - A) an additional cost imposed by the government on producers.
 - B) a cost or benefit that arises from production and falls on someone other than the producer, or a cost or benefit that arises from consumption and falls on someone other than the consumer.
 - C) an additional gain received by consumers from decisions made by the government.
 - D) the additional amount consumers have to pay to consume an additional amount of a good or service.
 - E) a marginal social cost.

- 2) Which one of the following goods is excludable?
 - A) a city bus
 - B) a bridge that does not charge a toll
 - C) protection from the police force
 - D) the atmosphere
 - E) all of the above

- 3) Which one of the following goods is nonexcludable?
 - A) the atmosphere
 - B) a taxi
 - C) an art museum
 - D) a toll bridge
 - E) all of the above

- 4) A common resource is
 - A) rival and nonexcludable.
 - B) nonrival and excludable.
 - C) nonrival and nonexcludable.
 - D) regulated and excludable.
 - E) rival and excludable.

- 5) A common resource is
 - A) excludable and either rival or nonrival.
 - B) rival and nonexcludable.
 - C) nonexcludable and either rival or nonrival.
 - D) rival and either excludable or nonexcludable.
 - E) rival and excludable.

- 6) Cable television and air-traffic control are similar to each other because both of them are
 - A) nonexcludable.
 - B) nonrival.
 - C) excludable.
 - D) rival.
 - E) private services.

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- 7) If a good is a public good,
- A) anyone can be excluded from enjoying its benefits.
 - B) consumers pay a low price.
 - C) no one can be excluded from enjoying its benefits.
 - D) economies of scale exist over the entire range of output for which there is a demand.
 - E) consumers must pay a high price to enjoy its benefits.
- 8) When a city street is congested, it is
- A) a public good.
 - B) a private good.
 - C) nonrival and excludable.
 - D) nonrival and nonexcludable.
 - E) a common resource.
- 9) A natural monopoly is
- A) nonrival.
 - B) excludable.
 - C) rival.
 - D) nonexcludable.
 - E) both A and B.
- 10) Although both cable television and air-traffic control are nonrival, they differ from each other because
- A) cable television is nonexcludable and air-traffic control is excludable.
 - B) cable television is a public good and air-traffic control is a private good.
 - C) cable television is nonexcludable and air-traffic control is a public good.
 - D) cable television is excludable and air-traffic control is nonexcludable.
 - E) cable television is a private good and air-traffic control is a public good.
- 11) When a city street is *not* congested, it is
- A) rival and nonexcludable.
 - B) a common resource
 - C) a public good.
 - D) rival and excludable.
 - E) a private good.
- 12) A good that is rival and nonexcludable is a
- A) common resource.
 - B) private good.
 - C) regulated good.
 - D) public good.
 - E) government good.
- 13) Which one of the following goods exhibits nonexcludability?
- A) cable TV
 - B) air-traffic control
 - C) rides on the U.S. Space Shuttle
 - D) the Internet
 - E) a cheeseburger

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- 14) Competition between two political parties will cause those parties to propose policies
- A) that reduce the well-being of middle-income families and increasing the well-being of the rich and the poor.
 - B) of rational ignorance.
 - C) that are quite different.
 - D) that are quite similar.
 - E) that equate total costs and total benefits.
- 15) Public goods are provided by government because
- A) private firms do not take into account the impact of external costs.
 - B) governments are more efficient than private firms at producing public goods.
 - C) people value national defence very highly.
 - D) private firms will make an economic profit.
 - E) free-rider problems result in underproduction by private markets.
- 16) According to public choice theory government failure occurs because
- A) voters are fully informed about the effects of policies.
 - B) government officials do not listen to the pleading of special interest groups.
 - C) lobbyists write legislation.
 - D) government cannot calculate the levels of externalities because there is no market for them.
 - E) government officials act in their own self-interest.

Use the figure below to answer the following question.

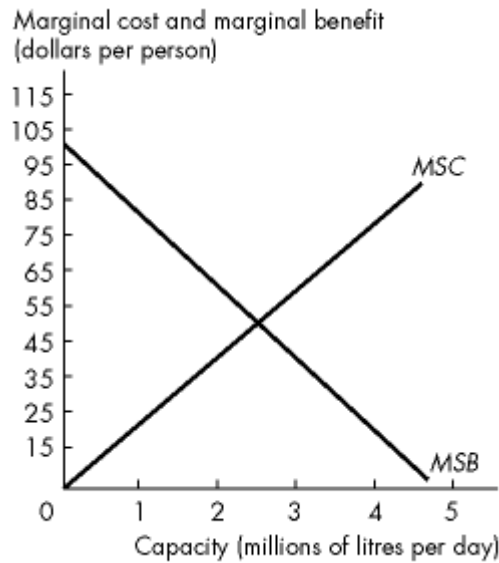


Figure 17.2.3

- 17) Refer to Figure 17.2.3. The graph provides information about a waste disposal system in a city of 1 million people. If the city installs the efficient capacity, then each person pays _____ in taxes.
- A) \$250
 - B) zero
 - C) \$31.25
 - D) \$62.50
 - E) \$125

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- 18) The budget of a government department is likely to be efficient if
- A) there is rational voter ignorance combined with special interest lobbying.
 - B) there are negative externalities.
 - C) bureaucrats are rationally ignorant.
 - D) voters are well informed.
 - E) the political equilibrium can be described in terms of public choice theory.
- 19) The idea that the platforms of the political parties will tend to become similar over time is
- A) true in theory but not true in actuality.
 - B) the result of intense lobbying pressure.
 - C) called the principle of minimal political confrontation.
 - D) not a reflection of reality.
 - E) called the principle of minimum differentiation.
- 20) Rational ignorance suggests that
- A) all voters will be ignorant on issues that are not of special interest to them.
 - B) it is easier to aim at the median voter because it is a less costly strategy for the politicians.
 - C) all voters will pursue information about each issue before voting.
 - D) all voters are ignorant.
 - E) low voter turnout is due to a lack of understanding of the importance of the political platforms.
- 21) Free riding can occur if a good is
- A) a private good.
 - B) excludable and nonrival.
 - C) excludable and rival.
 - D) nonexcludable and nonrival.
 - E) nonexcludable and rival.
- 22) According to _____ theory, governments make choices that result in an _____ provision of public goods. This outcome occurs in _____.
- A) public choice; efficient; political markets in which voters are rationally ignorant
 - B) public choice; inefficient; a perfect political system in which voters are full informed about the effects of policies
 - C) social interest; inefficient; political markets in which voters are rationally ignorant
 - D) social interest; efficient; political markets in which voters are rationally ignorant
 - E) social interest; efficient; a perfect political system in which voters are fully informed about the effects of policies
- 23) The economy's demand curve for a public good is obtained by summing the individual
- A) marginal cost curves vertically.
 - B) marginal cost curves horizontally.
 - C) marginal benefit curves horizontally.
 - D) marginal benefit curves vertically.
 - E) benefit curves diagonally.
- 24) Competitors who make themselves identical to appeal to the maximum number of voters illustrate the
- A) principle of minimum differentiation.
 - B) principle of maximum differentiation.
 - C) principle of nonrivalry.
 - D) principle of excludability.
 - E) principle of rational ignorance.

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- 25) All of the following statements regarding rational ignorance are true *except*
- A) it leads to an efficient outcome.
 - B) it allows special interest groups to exert political influence.
 - C) combined with special interest groups, it yields inefficiency in the provision of public goods.
 - D) it results when the cost of information exceeds the expected benefit of acquiring the information.
 - E) none of the above.
- 26) The "tragedy of the commons" refers to
- A) the absence of incentives to prevent the overuse of a common resource that arises when its users have no incentive to conserve it and use it sustainably.
 - B) the inability of lower income groups to achieve a higher level of education.
 - C) the tendency for bureaucrats to maximize their budget.
 - D) the acceptance of deplorable working conditions by those who lack the human capital to obtain a better job.
 - E) farmers who allow their livestock to overgraze their fields.
- 27) The absence of incentives to prevent the overuse of a common resource that arises when its users have no incentive to conserve it and use it sustainably is referred to as
- A) sustainable production.
 - B) rational ignorance.
 - C) the tragedy of the commons.
 - D) irrational production.
 - E) unsustainable production.

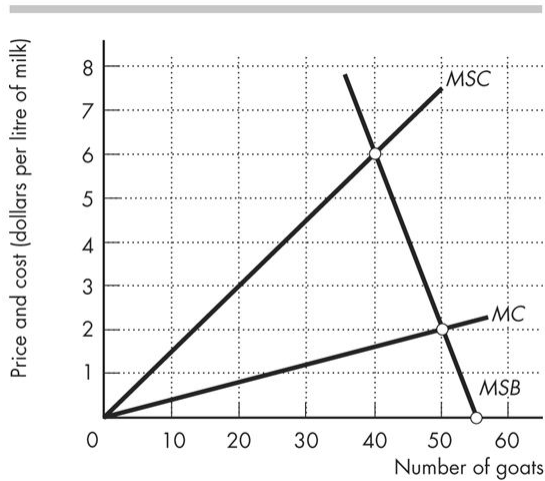


Figure 17.3.2

- 28) Figure 17.3.2 shows the marginal private cost curve, marginal social cost curve, and marginal social benefit curve for raising goats on a common pasture. If property rights to the pasture are granted to a farmer so that the farmer owns the pasture, the farmer raises
- A) 0 goats.
 - B) 35 goats.
 - C) 50 goats.
 - D) 40 goats.
 - E) 55 goats.

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- 29) Which of the following achieves the efficient use of a common resource?
- A) property rights, individual transferable quotas, and subsidies
 - B) production quotas, individual transferable quotas, and copyrights
 - C) individual transferable quotas and copyrights
 - D) property rights, production quotas, and subsidies
 - E) property rights, production quotas, and individual transferable quotas
- 30) An individual transferable quota is a production limit that
- A) is assigned to an individual who must transfer the quota to anyone the government assigns.
 - B) has a price equal to marginal benefit.
 - C) has a price equal to marginal cost.
 - D) is assigned to every producer in the industry at a predetermined price.
 - E) is assigned to an individual who is free to transfer the quota to someone else.
- 31) For a common resource, the marginal private cost curve slopes _____ and the marginal social cost curve slopes _____.
- A) upward; upward
 - B) downward; upward
 - C) upward; downward
 - D) downward; downward
 - E) upward or downward; in the same direction as the marginal private cost curve
- 32) The tragedy of the commons is the absence of incentives to
- A) discover new common resources.
 - B) export wool in sixteenth-century England.
 - C) prevent overuse of common resources.
 - D) prevent underuse of common resources.
 - E) reduce marginal cost of common resources.

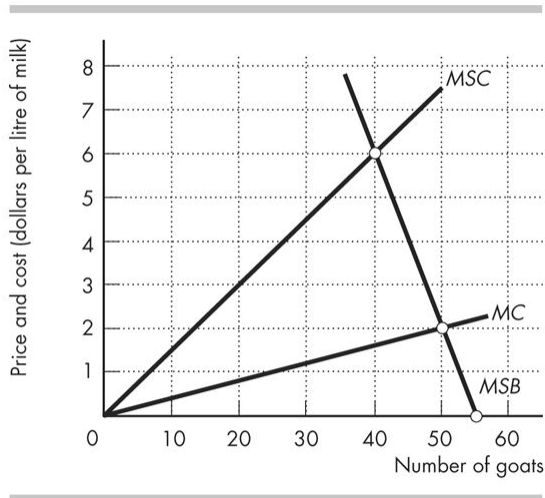


Figure 17.3.2

- 33) Figure 17.3.2 shows the marginal private cost curve, marginal social cost curve, and marginal social benefit curve for raising goats on a common pasture. The efficient quantity is
- A) 55 goats.
 - B) 0 goats.
 - C) 35 goats.
 - D) 40 goats.
 - E) 50 goats.

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- 34) One way to alleviate the tragedy of the commons is to
- A) make the resource private property.
 - B) distribute common resources among those individuals who really need the resource free of charge.
 - C) allow all individuals to use the common resource free of charge.
 - D) set a price of \$1 per unit of the common resource because it is an affordable price.
 - E) eliminate production quotas for using the common resource.
- 35) If property rights are assigned to a common resource, then the
- A) marginal social benefit increases.
 - B) government needs to set a production quota to achieve efficiency.
 - C) government needs to set an ITQ to achieve efficiency.
 - D) marginal private cost becomes equal to the marginal social cost.
 - E) more than the efficient quantity is produced.

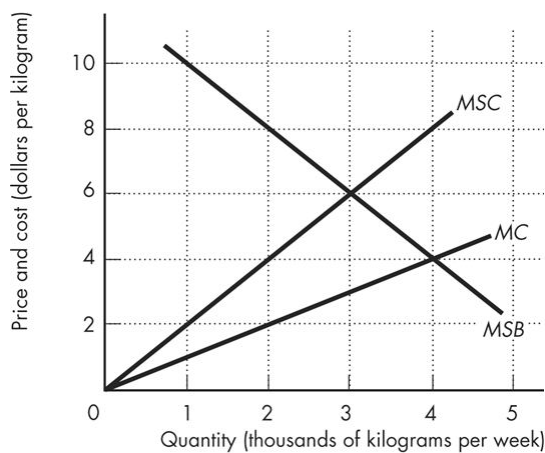


Figure 17.3.1

- 36) Figure 17.3.1 shows the marginal private cost curve, marginal social cost curve, and marginal social benefit curve for cod, a common resource. The efficient quantity is
- A) 5,000 kilograms a week.
 - B) 1,000 kilograms a week.
 - C) 3,000 kilograms a week.
 - D) 4,000 kilograms a week.
 - E) 0 kilograms a week.

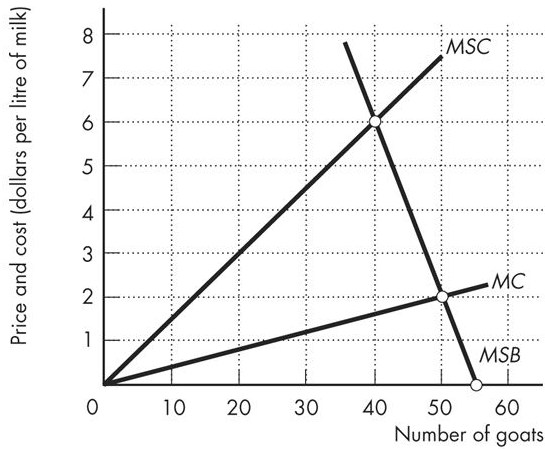


Figure 17.3.2

- 37) Figure 17.3.2 shows the marginal private cost curve, marginal social cost curve, and marginal social benefit curve for raising goats on a common pasture. A quota that results in the common resource being used efficiently is set at
- A) 50 goats. B) 40 goats. C) 55 goats. D) 0 goats. E) 35 goats.
- 38) Which of the following illustrates the concept of external cost?
- A) Smoking harms the health of the smoker.
 B) Bad weather reduces the size of the wheat crop.
 C) A reduction in the size of the wheat crop causes income of wheat farmers to fall.
 D) Smoking harms the health of nearby nonsmokers.
 E) Public health services reduce the transmission of disease.
- 39) A well-maintained water-front property that is enjoyed by other property owners is an example of
- A) a positive consumption externality.
 B) a negative consumption externality.
 C) a negative production externality.
 D) a positive production externality.
 E) an inefficient allocation of resources.
- 40) Smoking tobacco creates a _____ externality.
- A) positive consumption
 B) negative consumption
 C) negative production
 D) positive production
 E) none of the above
- 41) Air pollution generated by a paper mill factory is an example of a
- A) negative production externality.
 B) positive consumption externality.
 C) negative consumption externality.
 D) positive production externality.
 E) marginal external benefit.

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- 42) Sixty percent of our air pollution comes from
- A) electric utilities.
 - B) road transportation and industrial processes.
 - C) solid waste disposal.
 - D) a growing world population.
 - E) none of the above.
- 43) The Coase theorem tells us that in the presence of external costs in production,
- A) the government must intervene in the market to assure that the efficient level of output is produced.
 - B) then under certain conditions, private parties can arrive at the efficient solution without government involvement.
 - C) private parties can negotiate to produce the good at a level where marginal willingness to pay for the good by consumers is zero.
 - D) private parties can never arrive at the efficient solution.
 - E) and if transactions costs are high, then only the private sector will be able to produce the efficient amount of the good.
- 44) When an additional unit of output is produced, the extra cost to society is the
- A) marginal private cost.
 - B) marginal external cost.
 - C) marginal damage.
 - D) average total cost.
 - E) marginal social cost.

Use the figure below to answer the following questions.

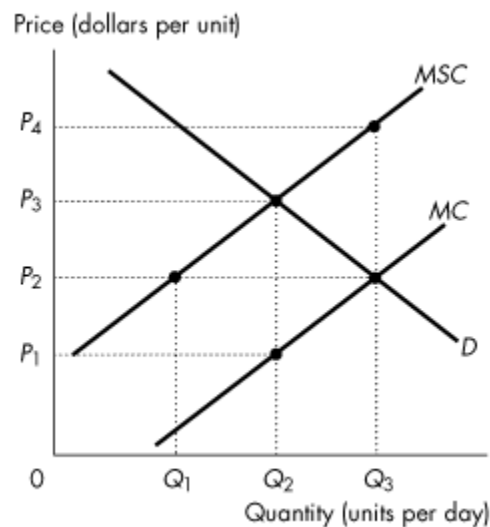


Figure 16.2.1

- 45) Refer to Figure 16.2.1. The figure shows the private marginal cost curve, the social marginal cost curve and the market demand curve. If the market is unregulated, then the quantity produced is
- A) Q_1 .
 - B) zero.
 - C) too low.
 - D) Q_3 .
 - E) Q_2 .

Use the table below to answer the following questions.

Table 16.2.1

Output (units)	Marginal Social Benefit (dollars)	Marginal Private Cost (dollars)	Marginal Social Cost (dollars)
0	80	0	20
1	70	10	30
2	60	20	40
3	50	30	50
4	40	40	60
5	30	50	70
6	20	60	80

- 46) Refer to Table 16.2.1. Given in the table are the marginal private cost and the marginal social cost of the production of chemical fertilizer and the marginal social benefit from the consumption of fertilizer. If the market is unregulated
- marginal external cost is maximized.
 - production is technologically inefficient.
 - the quantity produced is the efficient quantity.
 - the quantity produced is less than the efficient quantity.
 - the quantity produced is greater than the efficient quantity.
- 47) Which one of the following is a means of coping with a negative externality?
- emission subsidies
 - Pigovian taxes
 - vouchers
 - patents
 - copyrights
- 48) A chemical factory and a fishing club share a lake. Producing chemicals creates water pollution that harms the fish. Initially the lake is owned by no one. Keeping in mind the Coase theorem, suppose transactions costs are low and the chemical factory is given ownership of the lake. Compared to the situation with no property rights, the quantity of chemicals produced
- increases.
 - decreases.
 - changes but the direction of the change is unknown.
 - decreases only if the marginal external benefit decreases.
 - stays the same.

Answer Key

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- 1) B
- 2) A
- 3) A
- 4) A
- 5) B
- 6) B
- 7) C
- 8) E
- 9) E
- 10) D
- 11) C
- 12) A
- 13) B
- 14) D
- 15) E
- 16) E
- 17) D
- 18) D
- 19) E
- 20) A
- 21) D
- 22) E
- 23) D
- 24) A
- 25) A
- 26) A
- 27) C
- 28) D
- 29) E
- 30) E
- 31) A
- 32) C
- 33) D
- 34) A
- 35) D
- 36) C
- 37) B
- 38) D
- 39) A
- 40) B
- 41) A
- 42) B
- 43) B
- 44) E
- 45) D
- 46) E
- 47) B
- 48) B