THIRD TEST. ECON 100C, SPRING 2014. NAME: _____

1. Excise tax. Demand and supply in the market for bread (which is perfectly competitive, etc.) are determined by the marginal benefit function $MB = 160 - 4x$ and the marginal cost function $MC = 40 + 2x$, where x is the quantity of bread.

a) If there is no tax, find the equilibrium price, quantity, consumer surplus, producer surplus, and total economic surplus: $q =$ _____ $p =$ _____ $CS =$ _____ $PS =$ _____ $TES =$ _____

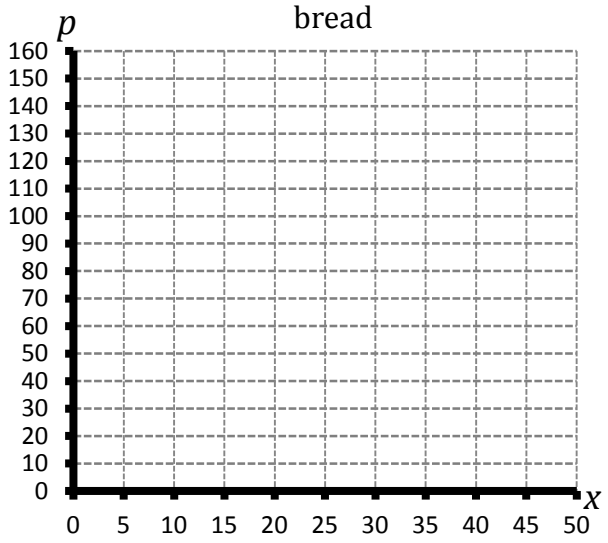
b) If there is a tax of 30 per unit, find the equilibrium price, quantity, consumer surplus, producer surplus, government revenue, total economic surplus, and deadweight loss: $q =$ _____
$p =$ _____ $CS =$ _____ $PS =$ _____ $GR =$ _____ $TES =$ _____ $DWL =$ _____

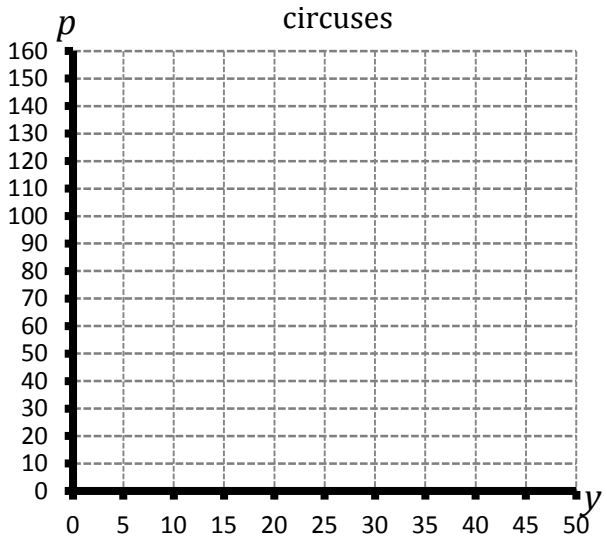
2. Public good. Suppose that circuses are a non-rival, non-excludable public good. There are 100 individuals in the society, and each has the same marginal benefit function for circuses, which is $MB_i = 1 - \frac{1}{50}y$, where y is the quantity of circuses. The marginal cost of circuses is $MC = 10$.

a) If there is no possibility of collective action, and each roommate must decide privately how many circus performers to employ, then the equilibrium quantity will be _____, and total economic surplus will be _____.

b) The socially optimal (Pareto efficient) quantity of circuses is _____, which gives total economic surplus of _____.

3. Bread and circuses – graphs. Draw all relevant curves. Label CS, PS, GR, and DWL for the bread market. Draw TES for the circus market with the Pareto efficient quantity.





4. Size of government. Use the bread and circuses example above to ground both a conservative argument for a small government and a liberal argument for an economically active government. That is, what problem with taxation does the model illustrate? What benefits of public spending does the model illustrate?

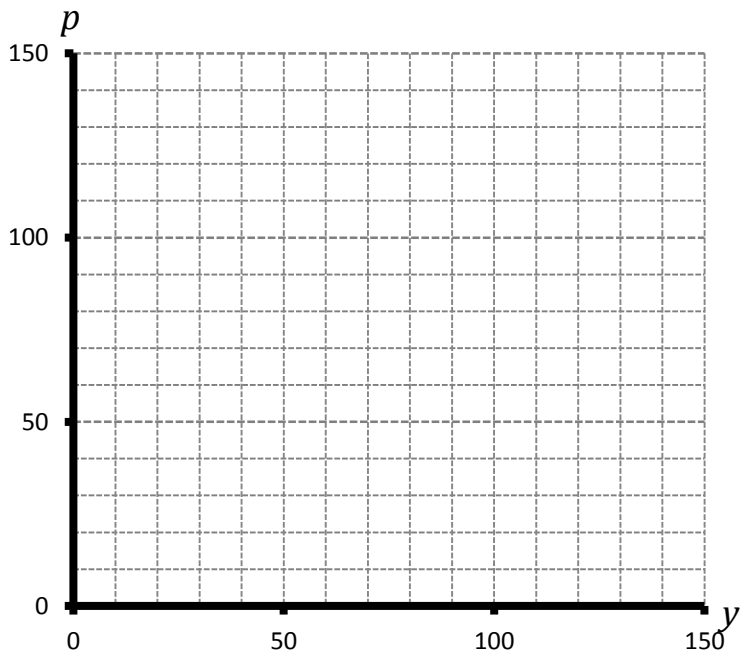
5. Monopoly. In the market for Malibu Rum, benefit and cost are defined by the functions $MB = 130 - q$ and $MC = 10 + q$. Pernod Ricard has a monopoly on Malibu Rum, and thus a marginal revenue function $MR = 130 - 2q$.

a) If Pernod Ricard is profit-maximizing, find quantity, price, consumer surplus, producer surplus, and deadweight loss.

$q =$ _____ $p =$ _____

$CS =$ _____ $PS =$ _____

$DWL =$ _____



b) On the graph to the right, draw all relevant curves and label CS, PS, and DWL (assuming the monopoly case)..

6. Health care. What would be the problem with implementing the community rating and guaranteed issue provisions of the 2010 Affordable Care Act (‘Obamacare’) without the individual mandate provision?

7. Unemployment. Explain the difference between frictional, structural, and cyclical unemployment. Discuss some different causes of structural unemployment.

8. Expectations and recession. Explain how widespread expectation of low employment and low national income can in fact cause low employment and low national income.

9. Efficiency and equity

a) Explain what economists mean by ‘efficiency’, and what they mean by ‘equity’. Is one considered fundamentally more important than the other?

b) Explain how redistribution might increase equity. Explain how redistribution might decrease efficiency.

c) Using the core material from the course, give three examples of how governments can improve efficiency, and one example (aside from redistribution) of how governments can decrease efficiency.