

Homework 6

Due on 26/9/2023, by 23:00

This assignment is optional but STRONGLY RECOMMENDED. If you do not submit the answers till the deadline, the score of your final exam will substitute for the score for this assignment. Submit only the correct letter for each task on eLearn under 'Quizzes' within 'COR2100-Economics and Society G7-8-26-49'. Note that the actual text of questions and answers is not supposed to appear on the eLearn quiz. You have unlimited attempts. The system is programmed to credit your last attempt. Be informed that if you submit an attempt and afterwards you re-open the quiz, you must submit your answers AGAIN. Otherwise, the system will grade the unfinished attempt with 0 (because it is the last one) and there is NOTHING I can do to fix this after the fact. Late homework or homework submitted outside eLearn cannot be accepted as this would violate SMU official policy for fairness and transparency in grading. This assignment is protected by Grade Insurance™: If the assignment's average turns out to be below 75, an equal amount of bonus points will be given to every work, for the average to become 75. Direct any homework questions to your TA.

1. If chicken costs \$8.80/kg and the government sets a price ceiling at \$7.00/kg, which of the following is most likely to happen?
 - A. Demand for chicken will increase.
 - B. Supply of chicken will decrease.
 - C. A shortage of chicken will occur.
 - D. All of the above.
2. Which of the following is most possible to be a non-excludable good?
 - A. A theater play.
 - B. An article on Economist.
 - C. A YouTube video.
 - D. Internet connection.
3. Which of the following is most possible to be a non-rival good?
 - A. A mobile app.
 - B. A public basketball court.
 - C. A hotel room.
 - D. A copy of a book.
4. Which of the following is accurate for government intervention in a PC market?
 - A. Imposing a price ceiling below the market equilibrium price will create a surplus.
 - B. Imposing a price floor above the market equilibrium price will create a shortage.
 - C. Both A and B.
 - D. None of the above.

Scenario 6.1: Firm A creates a negative externality towards firm B. The externality reduces Firm B's profits by d per year. Firm A can resolve the externality by investing i dollars per year. Firm A's profit is π per year.

5. According to scenario 6.1, if $d = \$1,500$, $i = \$2,000$ and $\pi = \$1,000$, which of the following is most likely to happen?
 - A. Firm B will buy firm A by paying \$1,000 per year and shut it down.
 - B. Firm B will offer to firm A \$1,400 per year to share the cost of the investment.
 - C. Firm B will undertake firm A's investment by giving \$2,000 per year to it.
 - D. Firm B will continue to bear the cost of externality.

6. According to scenario 6.1, if $d = \$750$, $i = \$2,000$ and $\pi = \$1,000$, which of the following is most likely to happen?
- Firm B will buy firm A by paying \$1,000 per year and shut it down.
 - Firm B will offer to firm A \$650 per year to share the cost of the investment.
 - Firm B will undertake firm A's investment by giving \$2,000 per year to it.
 - Firm B will continue to bear the cost of externality.
7. According to scenario 6.1, if $d = \$1,500$, $i = \$800$ and $\pi = \$1,000$, which of the following is most likely to happen?
- Firm B will buy firm A by paying \$1,000 per year and shut it down.
 - Firm B will offer to firm A \$700 per year to share the cost of the investment.
 - Firm B will undertake firm A's investment by giving \$800 per year to it.
 - Firm B will continue to bear the cost of externality.
8. According to scenario 6.1, if $d = \$1,500$, $i = \$1,000$ and $\pi = \$950$, which of the following is most likely to happen?
- Firm B will buy firm A by paying \$950 per year and shut it down.
 - Firm B will offer to firm A \$900 per year to share the cost of the investment.
 - Firm B will undertake firm A's investment by giving \$1,000 per year to it.
 - Firm B will continue to bear the cost of externality.
9. Which of the following is a main characteristic of a natural monopoly?
- Economies of scale over the relevant range of output.
 - Dis-economies of scale over the relevant range of output.
 - Marginal cost is U-shaped over the relevant range of output.
 - Marginal cost is constant over the relevant range of output.
10. Which of the following is most likely to be an example of market failure?
- Excludable goods are traded in the market.
 - A good is not allocated to the person who needs it more.
 - The production of plastic causes waste.
 - Producing at a large scale is much more efficient than small-scale production.

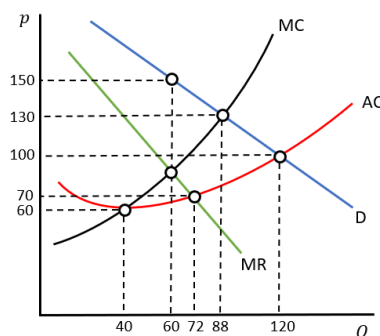


Figure 6.1: The demand and cost functions for a monopoly.

11. According to figure 6.1, how much should a price ceiling be, in order for the DWL to become zero?
- Around \$60.
 - Around \$70.
 - Around \$100.
 - Around \$130.
 - Around \$150.
 - No price ensures zero DWL.

12. According to figure 6.1, if a regulator sets a price ceiling at \$160, how many units will the seller produce?
- Around 40 units.
 - Between 40 and 60 units.
 - Around 60 units.
 - Around 72 units.
 - Around 88 units.
 - Around 120 units.
13. According to figure 6.1, if the regulator sets a price ceiling between \$100 and \$130, how many units will the seller produce?
- No more than 40 units.
 - No more than 60 units.
 - No more than 88 units.
 - Above 88 units.
 - Above 120 units.
14. According to figure 6.1, if the regulator wants to force the seller to produce 120 units, what price ceiling should the regulator set?
- Below \$100.
 - Around \$100.
 - Between \$100 and \$130.
 - Around \$130.
 - It is impossible to force the seller to produce 120 units.
15. Which of the following is most likely to be punishable under the antitrust law of Singapore, US or EU?
- Refusing to supply input indispensable for competition in an ancillary market.
 - Offering discounts to customers who buy most of their supplies from the dominant company.
 - Price discriminating between business clients without any objective justification.
 - Making it difficult for customers to switch to competitors.
16. Which of the following is most likely to be the reason why firms are seldom fined for price-fixing?
- It is hard to prove.
 - It is hard to detect.
 - Price-fixing is legal.
 - All of the above.

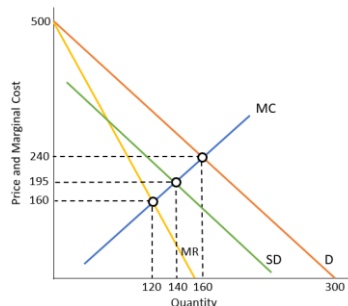


Figure 6.2: The demand (D), marginal cost (MC), marginal revenue (MR) and social benefit (SD) for a PC market.

17. Which of the following could be depicted in figure 6.2?
- The market for smoking tobacco.
 - The market for public transportation.
 - The market for bread for a bakery at the mall.
 - All of the above.

18. According to figure 6.2, what quantity will be produced if there is no government intervention?
- A. Around 120 units.
 - B. Between 120 and 140 units.
 - C. Around 140 units.
 - D. Between 140 and 160 units.
 - E. Around 160 units.
19. According to figure 6.2, how much is the socially optimal quantity?
- A. Around 120 units.
 - B. Between 120 and 140 units.
 - C. Around 140 units.
 - D. Between 140 and 160 units.
 - E. Around 160 units.
20. According to figure 6.2, what could the government do in order for the socially optimal quantity to be produced?
- A. Subsidize the sellers.
 - B. Subsidize the buyers.
 - C. Impose a per unit tax.
 - D. Impose a price floor.
 - E. No intervention is needed.

Good afternoon! When you find yourself unable to start something because of procrastination, offer the following deal to yourself: "I will start really doing it for just half an hour and if after that I still do not want to do it, I will leave it aside for today". Most of the times this trick works and you will be able to beat procrastination and start doing stuff. Procrastination is not so much a fear of doing things but rather a fear of starting them. "The beginning is the half of everything" ancient Greeks used to say. They were right! It works with everything, including this homework ;)

Kosmas