

Homework 6 – KEY

Average: 85.32 + Opts GI bonus

Due on 1/10/2024, by 23:00

The tasks in this assignment were designed for the average student to solve independently after mastering the material. The answers provided here are written in an instructional manner to help you understand the problem-solving process for each task. If you continue to struggle with a task after reviewing this key, the difficulty may stem not from the task itself, but from having missed or overlooked some parts of the required material.

1. Which of the following is accurate regarding a price ceiling imposed on a PC good?
 - 73%A. **A price ceiling cannot improve efficiency in a PC market.** *[A PC market distributes by default all gains from trade]*
 - B. A price ceiling imposed above the equilibrium price will create a DWL. *[Price will not be affected, no DWL will be created]*
 - 15%C. Both A and B.
 - 11%D. None of the above.

2. If beef costs \$30 per kg and the government sets a price ceiling at \$25 per kg, which of the following is most likely to happen?
 - A. The demand for beef will increase. *[Price regulation does not affect consumer preferences or income, so it should not affect the demand]*
 - B. The supply of beef will decrease. *[Price regulation does not affect the technology and production costs, so it should not affect the supply]*
 - 50%C. **A shortage of beef.** *[At the price of \$25, quantity demanded for beef will be higher than the quantity supplied and a shortage will occur]*
 - 48%D. All of the above.

3. Which of the following is most likely to be a non-excludable good?
 - A. Prescription medication. *[You must have a prescription]*
 - 98%B. **FM Radio broadcasts.** *[FM radio is free and open for everyone]*
 - C. University education. *[You must be admitted]*
 - D. A paywalled article on Bloomberg.com. *[You have to pay subscription to read it]*

4. Which of the following is most likely to be a non-rival good?
 - A. Natural gas. *[If someone uses it, others cannot]*
 - 95%B. **A weather forecast.** *[If one benefits from it, others can, too]*
 - C. A common stock of Berkshire Hathaway Inc. *[Each stock has only one owner]*
 - D. A Singapore dollar. *[Each dollar has only one owner]*
 - E. All of the above.

5. Which of the following is a main characteristic of a natural monopoly?
 - A. Spends resources on rent seeking. *[Natural monopolies do not need rent seeking to exist]*
 - B. Inelastic demand. *[Natural monopolies exist for elastic products as well]*
 - 90%C. **Economies of scale over the relevant range of demand.** *[This is necessary for a natural monopoly because it renders the single seller more efficient than any other form of competition]*
 - D. All of the above.

- 6✓ Which of the following is the LEAST possible to be an example of abuse of dominant position?
- A. A manufacturer requests from all retailers to sell its product at its monopoly price. *[Vertical restraint - illegal in most cases]*
 - 84%B. **A monopolist sells its product at its monopoly price.** *[This is what monopolies do]*
 - C. A seller sells below its own cost to drive rivals out of the market. *[Predatory pricing - illegal in most cases]*
 - D. The sellers in one market meet and agree to increase prices. *[Price fixing - illegal in most cases]*

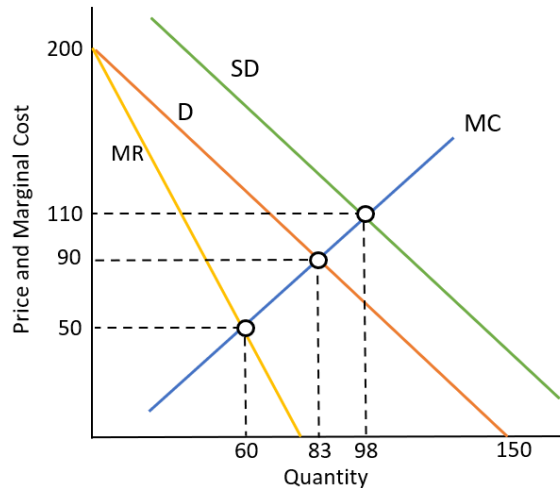


Figure 6.1: The demand, marginal cost and social benefit for a PC market

- 7✓ Which of the following is most likely to be depicted in figure 6.1?
- 90%A. **A positive externality from the consumption of the good.**
 - B. A negative externality from the consumption of the good.
 - C. A positive externality from the production of the good.
 - D. A negative externality from the production of the good.
- [Because SD is to the right of D, the social benefit from consuming this good exceeds the personal benefit; thus, a positive externality from the consumption of this good must be present. An externality from the side of production would involve an SC curve, which is absent here]*
- 8✓ What quantity will be produced in the market of figure 6.1 without regulation?
- 19%A. Around 60 units.
 - 77%B. **Around 83 units.** *[This PC market would equilibrate at 83 units, where demand = MC (supply)]*
 - C. Around 98 units.
 - D. Around 150 units.
- 9✓ What is the socially optimal quantity in the market of figure 6.1?
- A. Around 60 units.
 - B. Around 83 units.
 - 94%C. **Around 98 units.** *[The socially optimal quantity is at SD = MC (supply)]*
 - D. Around 150 units.
- 10✓ How could a regulator implement a quantity closer to the socially optimal quantity in figure 6.1?
- 92%A. **Subsidize the buyers.** *[Could push D towards SD, increasing quantity towards the socially optimal quantity (98)]*
 - B. Impose a per unit tax on the product. *[Would shift MC (supply) to the left, decreasing quantity below 83]*
 - C. Impose a price ceiling below \$90. *[Would decrease quantity supplied below 83]*
 - D. All of the above could lead to the socially optimal outcome.