

Homework 6 – KEY

Average: 83.44 + Opts GI bonus

Due on 25/2/2025, 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 could cause a black market?
 - A. Regulating the price for a monopoly.
 - B. Forcing a monopoly to break into multiple firms.
 - 95% C. **Imposing a price ceiling on a competitive good.**
 - D. Offering a subsidy for the purchase of a good associated with a positive externality.

[A black market is when the good is sold underground at a higher price. Here, A, B and D will cause the market price to fall. Conversely, C will create a shortage that could cause some consumers to pay above the price ceiling for the good]
2. ✓ Which of the following could be the reason why firms are seldom fined for price-fixing?
 - A. It is hard to detect high prices. *[In most cases it is very easy – you just look at the prices!]*
 - 95% B. **It is hard to prove.** *[It is hard to prove the existence of an agreement]*
 - C. Because in most cases it is not illegal. *[It is almost always illegal]*
 - D. Because price fixing reduces the DWL. *[It increases the DWL]*
3. ✓ Which of the following is the case when natural monopolies are regulated for efficiency ($p = MC$)?
 - A. The seller has zero profit.
 - 93% B. **The seller will operate at a loss.** *[Correct, because MC is always below AC; thus, $p < AC$]*
 - C. A DWL occurs. *[DWL is zero when $p = MC$]*
 - D. Entry will occur. *[There is no entry in natural monopolies. Entrants will make losses]*
4. * If durian costs \$20 per kg and the government sets a price floor at \$24 per kg, which of the following is most likely to happen?
 - A. The demand for durian will decrease. *[Price regulation does not affect consumer preferences or income, so it should not affect the demand]*
 - B. The supply of durian will increase. *[Price regulation does not affect the technology and production costs, so it should not affect the supply]*
 - 23% C. **Tons of durian will be wasted.** *[At the price of \$24, quantity demanded for durian will be lower than the quantity supplied, and the surplus will be wasted]*
 - 76% D. All of the above.
5. ✓ Which of the following could be a positive outcome when imposing a price floor on durians?
 - A. Durian will become more affordable for consumers. *[No, its price will increase]*
 - B. The DWL in the market of durian will shrink. *[No, a DWL will be created]*
 - 97% C. **Durian farmers will have a higher income.** *[Possible if $\% \Delta Q < \% \Delta P$, that is durian's demand is inelastic at its initial equilibrium]*
 - D. More durian will be sold. *[No, less durian will be sold]*

- 6✓ In the series “Baby Reindeer”, the main character, Donny Dunn, performs a comedy show at a nearly empty free entry pub and afterwards collects donations from the few patrons saying: “Just give what you think the show is worth”. Which of the following is accurate?
- A. The show is non-rival. *[True. Because when one attends, does not deprive other from attending]*
 - 17%B. The show is non-excludable. *[True. Donny cannot exclude patrons who do not want to pay]*
 - 76%C. **The show is both non-rival and non-excludable.**
 - D. The show is neither non-rival, nor non-excludable.
- 7✓ Which of the following is most likely to be a public good?
- 100%A. **A traffic light.** *[Both non-excludable and non-rival]*
 - B. A heart transplant at a public hospital. *[It is rival]*
 - C. Antivirus software. *[It is excludable]*
 - D. A game of bowling. *[It is excludable and rival]*
- 8✓ Which of the following will happen, if the government offers a 30% subsidy to individuals who buy an EV?
- A. The supply curve of EVs will shift to the right.
 - B. The supply curve of EVs will shift to the left.
 - 96%C. **The demand curve of EVs will shift to the right.**
 - D. The demand curve of EVs will shift to the left.
 - E. None of the above.
- [The subsidy will be given to consumers, so it should not affect the supply side. Demand will shift to the right because the subsidy will act as additional budget (income) for those who buy EVs]*
- 9✓ Which of the following is an example of market failure?
- A. Dis-economies of scale. *[It is a natural process and a result of resource scarcity]*
 - B. Excludable goods are traded in the market. *[Excludable goods are the vast majority of goods in every economy]*
 - 73%C. **One company employs the majority of people in a town.** *[Possible to lead to excess market power, keeping salaries below the competitive level]*
 - 19%D. All of the above.
- 10✓ Which of the following is a negative externality?
- [A negative externality requires a market activity between two parties (sellers and buyers) to cause a negative effect on a third party who is not involved in the aforementioned market activity]*
- A. The increase in tuition to a point where the poor cannot afford college. *[There is no third party here. Some potential buyers cannot afford the product]*
 - B. The correlation between obesity and diabetes. *[This is just an unpleasant scientific result]*
 - 84%C. **The increase in misogyny caused by Andrew Tate’s online content.** *[Some idiots (buyers) consume Tate’s (seller) content resulting to some women (third party) dealing with misogyny]*
 - D. The decrease in the revenue from tourism in Sicily because of Etna’s eruption. *[A negative effect by a random natural event]*