

Homework 6 – KEY

Average: 78.88 + Opts GI bonus

Due on 24/2/2026, 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. 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]*
 - 60% 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]*
 - 39% D. All of the above.

2. Which of the following could cause a good to be sold unofficially at a lower price?
 - A. When a high excise tax is imposed on the good in the official market. *[An underground market would help suppliers to tax evade and charge lower prices]*
 - 21% B. When an unreasonably high price floor is imposed in the official market. *[An underground market would allow suppliers to sell more quantity at a price closer to the natural equilibrium price]*
 - C. When the government imposes a quota on the official market limiting the quantity that can be sold. *[An underground market would enable the suppliers to circumvent the restriction in quantity]*
 - 71% D. **All of the above.**

3. How can a decrease in the sales tax on e-bikes be depicted in the supply–demand graph of the market?
 - 90% A. **The supply will shift to the right.**
 - B. The supply will shift to the left.
 - C. The demand will shift to the right.
 - D. The demand will shift to the left.

[The sales tax reduction will decrease the MC of e-bikes, which in turn leads to a rightward shift of the supply curve]

4. Which of the following is the LEAST possible to be an example of abuse of dominant position?
 - A. A manufacturer requests from retailers to sell the product at a set price. *[Vertical restraint - illegal in most cases]*
 - 78% B. **A monopolist sells its product at its monopoly price.** *[This is what monopolies do]*
 - C. A manufacturer requires retailers to not sell products made by competitive manufacturers. *[Also vertical restraint]*
 - 14% D. The sellers in one market meet and agree to increase prices. *[Price fixing - illegal in most cases]*

- 5✓ Which of the following is a characteristic of a natural monopoly?
- A. Spends resources on rent seeking. *[Natural monopolies do not need rent seeking to exist]*
 - B. Faces inelastic demand. *[Natural monopolies exist for elastic products as well]*
 - 88%C. **Experiences 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]*
 - 10%D. All of the above.
- 6✓ Which of the following is most likely to be a rival good?
- A. A series on Netflix. *[If I watch the series, you can also watch it]*
 - B. A live airshow. *[If I attend the airshow, you can also attend it]*
 - C. The botanic gardens. *[If I visit them, you can also visit them]*
 - 97%D. **A Pokémon card.** *[If I own it, you cannot have it too]*
- 7✓ Which of the following is accurate for government intervention in a PC market?
- A. By imposing price ceilings and floors governments can reduce the market's DWL. *[In PC markets there is zero DWL]*
 - B. Price ceilings and floors are meaningless in PC markets. *[Price ceilings increase consumers' accessibility to some products, while price floors guarantee a minimum level of profits to producers]*
 - 92%C. **Price ceilings and floors ruin PC market's efficiency.** *[PC markets are fully efficient at equilibrium but price ceilings and floors prevent the market from equilibrating at the PC equilibrium]*
 - D. PC markets always achieve the socially desirable outcome. *[Incorrect, there are examples when prices are too low for farmers, etc.]*
- 8✓ Which of the following occurs when a product is associated with a positive externality?
- A. The social benefit exceeds the market demand. *[The existence of a positive externality implies that there is redundant social benefit, which is not reflected in the market demand]*
 - B. The socially optimal quantity exceeds the equilibrium quantity. *[It is given as the intersection point between supply and "social" demand, which lies above the market demand]*
 - C. The socially optimal price is above the equilibrium price. *[Society would be willing to pay more in order to obtain more of the product which causes the externality]*
 - 91%D. All of the above.
- 9* Many enjoy vaping but vaping causes serious health complications which overload the country's medical system. Which of the following could address the externality more effectively?
- A. A price floor on vapes.
 - B. A price ceiling on vapes.
 - 89%C. A sales tax on vapes.
 - 10%D. **A ban on vapes.** *[A ban on vaping would completely eliminate the externality, while a price floor, a price ceiling, or a sales tax would reduce vaping only to a certain extent]*
- 10✓ Which of the following is most likely to happen when regulating a natural monopoly, by setting the price equal to MC?
- A. Consumer surplus is maximized.
 - B. Producer surplus is maximized.
 - 96%C. **The monopolist will operate at a loss.**
 - D. The monopolist will have zero profit.
 - E. None of the above.
- [As long as AC declines, MC is less than AC. So, if the regulator sets the price equal to the monopolist's MC, it means that the price will be lower than its AC, forcing them to operate at a loss]*