First Exam

Write all answers in your blue book and show all work there. Return your exam in your blue book.

16 pts.

1) Briefly describe how pessimists (Limits of Growth) and optimists (The Ultimate Resource) can look at the same world and come to such differ views of the future.

16 pts.

2) Draw a well-labeled diagram of market supply and demand and use it to explain how markets direct resources to their most efficient use.

16 pts.

3) Some goods do not have market demand that reflects their full value. Give an example of such a good, explaining why the market demand is low. Does your example involve a public good or an externality or both. Explain. Suggest one way of estimating the value and one source of doubt about the accuracy of that measure.

20 pts

4) a)   Draw a well-labeled diagram that shows how resource allocation is made inefficient by an externality.

b) Draw a well-labeled diagram that shows the efficient level of pollution control to less than 100 percent.

c) Modify the part a diagram to show the efficient level of production when the externality is controlled at the efficient level.

16 pts.

5) a) Why are future benefits and costs discounted to a present value when dynamic efficiency is sought?

b) True or false, why? If population and demand are steady over time, efficient use of resources requires an even division consumption over time.

16 pts.

6) a) What did Malthus predict for the world economy?

b) Are there any parts of the world where his vision seems valid? Why?

c) Give short explanations for two factors that seem to account for low population grow in developed economies.

I have neither given nor received unfair aid on this test.

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