

First Exam

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

15 pts.

1) Briefly describe the “limits of growth” view of the world. Now contrast this to the “ultimate resource” view of the world.

18 pts.

2) How do property rights relate to environmental problems? Give an example of how such problems might be efficiently controlled if property right were well defined.

b) Draw a well-labeled diagram that shows an efficient level of pollution. Explain why this is not likely to be zero.

15 pts.

3) Give an example of a common property resource and explain the nature of the problem that arises.

19 pts.

4) a) If $NB = 20 - 2Q$ and $Q = 10$, draw a well-labeled diagram of these benefits and find the consumer surplus from these 10 units.

b) Would it be efficient to produce 11 units? Why?

c) If these benefits occur 15 years in the future and the discount rate is .03, what is the present value of the consumer surplus.

18 pts.

5)	Q	TC	MC	MR
	1	10		10
	2	12		8
	3	15		6
	4	19		4
	5	24		

a) Copy this table on your test and fill the MC values.

b) Identify the profit maximizing quantity.

c) Is this level of output economically efficient? Why?

15 pts.

6) If one person is making choices for himself or herself, then the choices that maximize present discounted value make a great deal of sense. Explain why.

b) If an economy is making choices that affect generations of people, then the choices that maximize present discounted value are not so obviously the best ones. Why not?

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