

Chapter 31

Environmental Economics

31.1 Private versus Social Costs

1) Which of the following statements best defines private costs?

- A) They are internal in the sense that the firm or household must explicitly take them into account.
- B) They are costs borne by people other than those who commit the action.
- C) They are synonymous with social costs.
- D) They represent explicit costs incurred by business firms in the private sector.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

2) Costs that are borne solely by the individuals who incur them are called

- A) private costs.
- B) public costs.
- C) social costs.
- D) external costs.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

3) When the costs of an action are not fully borne by the two parties engaged in a transaction, this is called a(n)

- A) externality.
- B) equilibrium.
- C) property right.
- D) internal cost.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

4) Pollution created by auto exhaust fumes is an example of a situation in which

- A) social costs are greater than private costs.
- B) social costs are less than private costs.
- C) social costs are equal to private costs.
- D) social costs are approaching the shutdown point.

Answer: A

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

5) An individual who pays for personal auto repair has incurred a

- A) social cost.
- B) private cost.
- C) negative externality.
- D) positive externality.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 6) Private costs are the same as
A) implicit costs. B) external costs. C) public costs. D) internal costs.

Answer: D

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 7) All of the following are private costs of operating an automobile EXCEPT
A) gasoline for the car.
B) depreciation of the vehicle.
C) car insurance.
D) harm to the environment from emissions.

Answer: D

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 8) Internal costs are
A) costs borne solely by the individuals who incur them.
B) costs borne by people in the same society as those who incur them.
C) costs borne by people working in the firm that incurs them.
D) all costs incurred in the marketplace.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 9) To find the social cost of an action, add together
A) the external and accounting costs.
B) the private costs and the internal costs.
C) the external costs and the internal costs.
D) the internal costs and the private opportunity costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 10) Society must pay the full opportunity cost of any activity
A) that uses scarce resources. B) that causes costs to rise.
C) that increases revenues. D) none of the above.

Answer: A

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

11) Social costs are

- A) costs borne by society whenever a resource-using action takes place.
- B) costs incurred by government and borne by all taxpayers.
- C) costs incurred in governmental welfare programs.
- D) external costs minus internal costs.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

12) The total social cost of production is equal to

- A) external cost minus internal cost.
- B) internal cost minus external cost.
- C) external cost plus internal cost.
- D) internal cost plus opportunity cost.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

13) There is "too much" steel production if the

- A) social costs of steel production are significantly lower than the private costs.
- B) social benefits of steel production are declining.
- C) social costs of steel production are significantly higher than the private costs.
- D) social costs of steel production are declining.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

14) Social costs are

- A) private costs plus any external costs.
- B) the costs of the externality only.
- C) costs incurred when common property is used.
- D) the costs associated with reaching and enforcing agreements.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

15) A social cost that is not fully paid by the individual using an automobile is

- A) traffic congestion.
- B) gasoline and oil.
- C) insurance.
- D) depreciation of the vehicle.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 16) When the social costs exceed the private costs, economists state that there is
- A) a positive externality.
 - B) an underproduction of output.
 - C) a negative externality.
 - D) social appreciation of resources.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 17) When social and private costs differ, economists state that
- A) there will be economic profit in the society.
 - B) the society will produce inside the production possibilities frontier.
 - C) there is an externality.
 - D) there is not an efficiency problem but an equity problem.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 18) An externality that is not fully paid by the individual using an automobile is
- A) insurance for the vehicle.
 - B) gasoline for the vehicle.
 - C) air pollution from the vehicle.
 - D) operation of the vehicle.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: New

- 19) If social cost exceeds private cost, there is
- A) underproduction of a good.
 - B) a negative externality.
 - C) a positive externality.
 - D) too little economic profit in the activity.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 20) Where pollution is concerned, if an automobile driver considers only the internal costs of his actions, he is apt to
- A) use resources very carefully and in small quantities.
 - B) garage his car and drive very seldom.
 - C) be making a positive contribution to the greater community.
 - D) drive too much and use up more scarce resources than he would if he had to cover all his costs.

Answer: D

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 21) If a person does not pay all costs associated with a particular resource–using activity, then
- A) the external costs of the activity are greater than the private costs of the activity.
 - B) the social costs of the activity are greater than the private costs of the activity.
 - C) the external costs of the activity are greater than the internal costs of the activity.
 - D) the full costs of the activity are the sum of private costs plus internal costs.

Answer: B

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 22) If the social costs of refining oil are greater than the private costs of oil refining, then
- A) the external costs of oil refining are greater than the social costs of oil refining.
 - B) users of products that use refined oil are paying too much for the products.
 - C) there is too much oil refining.
 - D) the amount of oil refining needs to increase in order to bring social costs and private costs in line with each other.

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 23) When a person does not have to pay the full costs for using a scarce resource, then
- A) the use of the resource is not affected since society pays for the resource.
 - B) more of the resource will be used.
 - C) the internal costs of using the resource are too high.
 - D) the social costs of the resource are less than they would be if the "correct" amount of the resource were being used.

Answer: B

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Suppose there are two factories on a river, and both need clean water for their production processes. The upstream factory takes in clean water and dumps dirty water back into the river. The downstream firm must clean up the water it gets from the river before using it. In this situation,
- A) the private costs of the downstream factory are more than the private costs of the upstream factory, but for both factories private costs and social costs are the same.
 - B) the social costs are greater than the private costs for the upstream firm, while the social costs are less than the private costs for the downstream firm.
 - C) the upstream factory's private costs are less than its social costs, and its external costs are borne by the downstream factory.
 - D) the internal costs of the upstream factory are externalized by the downstream factory, which then passes them on to its customers.

Answer: C

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 25) When a person does not have to pay the full costs for using a scarce resource, then there is
- A) an underproduction of a good.
 - B) a negative externality.
 - C) a positive externality.
 - D) too little economic profit in the activity.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: New

- 26) When social costs for using a scarce resource are included, then there is
- A) a decrease in the production of the good.
 - B) a negative externality.
 - C) a decrease in the price of the good.
 - D) a positive externality.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: New

- 27) When both internal and external costs for using a scarce resource are included, then there is
- A) an increase in the production of the good.
 - B) a negative externality.
 - C) an increase in the price of the good.
 - D) a positive externality.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: New

- 28) Which of the following is an example of an external cost?
- A) The cost of labor to a firm
 - B) The pollution caused by automobile exhaust
 - C) The cost of tires for your car
 - D) The opportunity cost of getting a college education

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 29) If coal-burning electrical utility companies fully internalized pollution costs, then we could expect
- A) an increase in electricity prices.
 - B) a decrease in electricity prices.
 - C) no change in electricity prices.
 - D) a greater use of coal to produce electricity.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

30) Externalities exist because

- A) private costs differ from social costs.
- B) private costs are equal to social costs.
- C) government has created them.
- D) they are a function of socialism.

Answer: A

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

31) If the external costs of production are not taken into account, then production will

- A) be less than socially desirable.
- B) be more than socially desirable.
- C) be the same since only prices are affected by externalities.
- D) cease.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

32) If crop dusting on your farm causes your neighbors to have sore throats, then crop dusting is creating

- A) only explicit costs.
- B) opportunity costs.
- C) external costs.
- D) internal costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

33) If firms were forced to take into account the full social costs of production, then

- A) output would decrease but pollution levels would probably remain at the same levels.
- B) output would be unaffected but pollution levels would come down.
- C) output and pollution levels would decrease.
- D) output could be increased and pollution levels would decrease.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

34) If the market price of a good does NOT include all of the costs and benefits that arise from the production or consumption of the good, then

- A) the market is perfectly competitive.
- B) an externality is present.
- C) society is consuming and producing the optimal amount of the good.
- D) resources are properly allocated.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 39) The Black Ash Steel Company's plant belches large quantities of noxious fumes and black ash into the air. Residents in the surrounding area have higher medical bills because of Black Ash's pollution. As long as Black Ash is allowed to emit pollution and ignore any externalities, the firm will
- A) overproduce.
 - B) under produce.
 - C) charge too high a price for its output.
 - D) be absorbing the full value of its social costs.

Answer: A

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 40) The Black Ash Steel Company's plant belches large quantities of noxious fumes and black ash into the air. Residents in the surrounding area have higher medical bills because of Black Ash's pollution. If the firm is forced to pay the social costs of its production,
- A) the amount of steel it produces will increase in order to pay the additional costs.
 - B) the price it charges for its steel will decrease.
 - C) its supply curve will shift to the right.
 - D) it will produce less and charge more for its steel.

Answer: D

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Which of the following is **not** a private cost?
- A) The health insurance costs a firm must pay for its employees.
 - B) The pollution caused by a firm dumping its wastes into the river.
 - C) The coffee pot that Jan dropped and broke this morning.
 - D) The amount that a firm must pay for raw materials to make its product.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 45) John raises bees to pollinate his apple trees. One of the bees just stung him. This is a(n)
- A) private cost.
 - B) social cost.
 - C) internality.
 - D) common property.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 46) John raises bees to pollinate his orchard. A couple of bees which escaped ended up pollinating his neighbor's orchard, so
- A) John's neighbor has received an internal cost of John's bee-keeping.
 - B) John's neighbor has received an external cost of John's bee-keeping.
 - C) John's neighbor has received an external benefit of John's bee-keeping.
 - D) None of the above is correct.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 47) External costs are
- A) borne by individuals other than those who incurred them.
 - B) another term for implicit costs.
 - C) borne by the public but incurred by the government.
 - D) borne by the government but incurred by the public.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 48) The sum of internal and external costs is
- A) private costs.
 - B) social costs.
 - C) internality.
 - D) common property.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

49) Social costs are

- A) costs that are borne by the government.
- B) the full cost borne by society whenever a resource use occurs.
- C) borne by individuals who incur them.
- D) another term for external costs.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

50) The total costs of using a resource are made up of

- A) private costs only.
- B) external costs only.
- C) social costs only.
- D) internal and private costs only.

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

51) The sum of internal and external costs is

- A) externalities.
- B) social costs.
- C) internalities.
- D) private costs.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

52) When a person drives an automobile, that individual is creating

- A) internal costs only.
- B) private costs only because the individual pays for the insurance, gas etc.
- C) external costs only.
- D) social costs.

Answer: D

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

53) Which of the following statements is true about the relationship among external, internal and social costs?

- A) Social costs will always be higher than external costs.
- B) Social costs will always be higher than internal costs.
- C) Internal costs will always be higher than external costs.
- D) Internal costs will never equal external costs.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

54) Which of the following statements is true about the relationship among external, internal and social costs?

- A) External cost is the difference between social and internal costs.
- B) Internal cost is the sum of social and external costs.
- C) Social cost is the difference between internal and external costs.
- D) None of the above.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: New

55) The social costs of an activity are greater than the private costs of the activity when

- A) a person does not pay all costs associated with a particular resource-using activity.
- B) the internal costs of the resource-using activity are less than the external costs of the activity.
- C) the internal costs of the resource-using activity are positive.
- D) the external costs of the resource-using activity are zero.

Answer: A

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

56) When social costs of an activity exceed private costs

- A) there is a tendency for resources to be under-utilized.
- B) this means that resources are being efficiently used.
- C) there is a tendency for resources to be over-utilized.
- D) None of the above is correct.

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

57) When social costs of an activity exceed private costs

- A) a market failure exists.
- B) there is a tendency for resources to be under-utilized.
- C) this means that resources are being efficiently used.
- D) the actual price is above the efficient price.

Answer: A

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: New

- 58) If the social costs of driving an automobile are greater than the private costs of driving an automobile, then
- A) the external costs of auto driving exceed the social costs of auto driving.
 - B) the external costs of auto driving exceed the internal costs.
 - C) the price of automobile driving is too high.
 - D) either people drive their autos too much or more funds should be spent on reducing air pollution.

Answer: D

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 59) An example of a situation in which the social costs are greater than the private costs would be
- A) a new restaurant takes business away from an established restaurant.
 - B) hand-held calculators putting slide rule manufacturers out of business.
 - C) when a member of a rock band's ability to hear deteriorates from performing in so many loud concerts.
 - D) a physician who cannot examine patients with a stethoscope in an examination room adjacent to an airport.

Answer: D

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 60) Suppose there are two identical factories on a river. Both require clean water for their production processes. The upstream firm gets clean water from the river and dumps dirty water into the river. The downstream firm must clean the water it gets from the river before it can use the water and later it dumps dirty water into the river. In this situation
- A) the private costs of the two firms are the same since both dump dirty water into the river.
 - B) the upstream factory's private costs are lower than its social costs since it passes the costs of the dirty water on to the downstream firm. For the downstream firms, private costs equal social costs.
 - C) the private costs of the downstream firm are greater than the private costs of the upstream firm and the social costs are less than the private costs for both firms.
 - D) the private costs of the upstream firm are less than its social costs while the social costs of the downstream firm are less than its private costs.

Answer: B

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 61) Suppose there are two firms on a river and the production processes of both require clean water. The upstream firm's process dirties the water, which it dumps back into the river. The downstream firm must clean the water before using it in its production process. If the two firms would merge,
- A) the external costs of the merged firm would equal the external costs of the upstream firm, which would then be passed on to its customers.
 - B) the total costs of production fall since the external costs disappear.
 - C) the external costs of the upstream firm are private costs after the merger.
 - D) the internal costs of the downstream firm become external costs of the merged firm.

Answer: C

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 62) An example of the external costs due to automobile driving is
- A) wear and tear on toll roads.
 - B) the opportunity cost of the driver's time.
 - C) air pollution due to exhaust fumes.
 - D) the cost of washing dirty cars.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 63) When a person can pass some of her costs of using a resource on to someone else,
- A) the use of the resource is not affected by her actions.
 - B) the internal costs of using the resource exceed the private costs.
 - C) she uses too much of the resource.
 - D) she uses too little of the resource.

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 64) A person removes the anti-pollution devices on his automobile. An external cost associated with this is
- A) the feeling of guilt the person feels for violating the law.
 - B) the ticket he gets when a highway patrol officer pulls him over.
 - C) the man's neighbor washes his car more often because of increasing smog.
 - D) the man buys less gasoline, reducing the income of local gas stations.

Answer: C

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 65) Air pollution is a problem because
- A) people are greedy.
 - B) people are not environmentally conscious.
 - C) people make use of air without having to bear all the costs of their actions.
 - D) a market economy does not provide as strong an incentive for environmental cleanup as a socialist economy.

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 66) If pollutants from smoke stacks in a city such as Newark causes people to paint their homes and cars more frequently, this implies
- A) external benefits to the home and car owners.
 - B) external costs on home and car owners.
 - C) internal cost to home and car owners.
 - D) none of the above

Answer: B

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 67) By adding internal costs to external costs, we determine the total
- A) private cost.
 - B) social cost.
 - C) psychological cost.
 - D) marginal cost.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 68) Another name for internal cost is
- A) private cost.
 - B) social cost.
 - C) psychological cost.
 - D) marginal cost.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 69) Which of the following constitutes an external cost of driving an automobile?
- A) insurance
 - B) fuel
 - C) pollution
 - D) wear and tear

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

70) In a situation in which internal costs differ from social costs, we say that there exists a(n)

- A) welfare loss.
- B) welfare benefit.
- C) internality.
- D) externality.

Answer: D

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

71) When a person smokes a cigarette in his car and throws the butt out of the window, this is a(n)

- A) marginal cost.
- B) external cost.
- C) average total cost.
- D) public cost.

Answer: B

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

72) Costs that are borne solely by the individuals who incur them are

- A) private costs.
- B) social costs.
- C) external costs.
- D) transaction costs.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

73) To find social costs,

- A) internal and private costs have to be added together.
- B) internal and external costs have to be added together.
- C) internal and implicit costs have to be added together.
- D) internal and production costs have to be added together.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

74) When the total external and internal costs of a transaction are taken into consideration, this is known as

- A) public costs.
- B) average total costs.
- C) social costs.
- D) marginal costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 75) When there are no externalities,
- A) social costs are greater than private costs.
 - B) social costs are less than private costs.
 - C) private costs are greater than social costs.
 - D) private costs equal social costs.

Answer: D

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 76) Which of the following is FALSE?
- A) Social costs do not include private costs.
 - B) Private costs do not include external costs.
 - C) If social costs are greater than private costs, "too much" of a good is being produced.
 - D) Pollution is a social cost.

Answer: A

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 77) An externality
- A) may be positive or negative.
 - B) means a rapidly rising cost borne by consumers.
 - C) is the cost of producing a good outside the United States.
 - D) is the indirect cost, the overhead, of producing a product.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 78) Which of the following statements is true for the U.S. economy?
- A) Supply of services always reflects all social costs.
 - B) Demand for services always reflects all social costs.
 - C) Private costs are not always equal to social costs.
 - D) Social benefits are always emphasized in advertising.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 79) When the private costs and the social costs are NOT the same, there is a(n)
- A) externality.
 - B) internality.
 - C) public good.
 - D) monopoly.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 80) A good that has external costs associated with its production will be
- A) produced at the optimal level.
 - B) underproduced.
 - C) overproduced.
 - D) not produced.

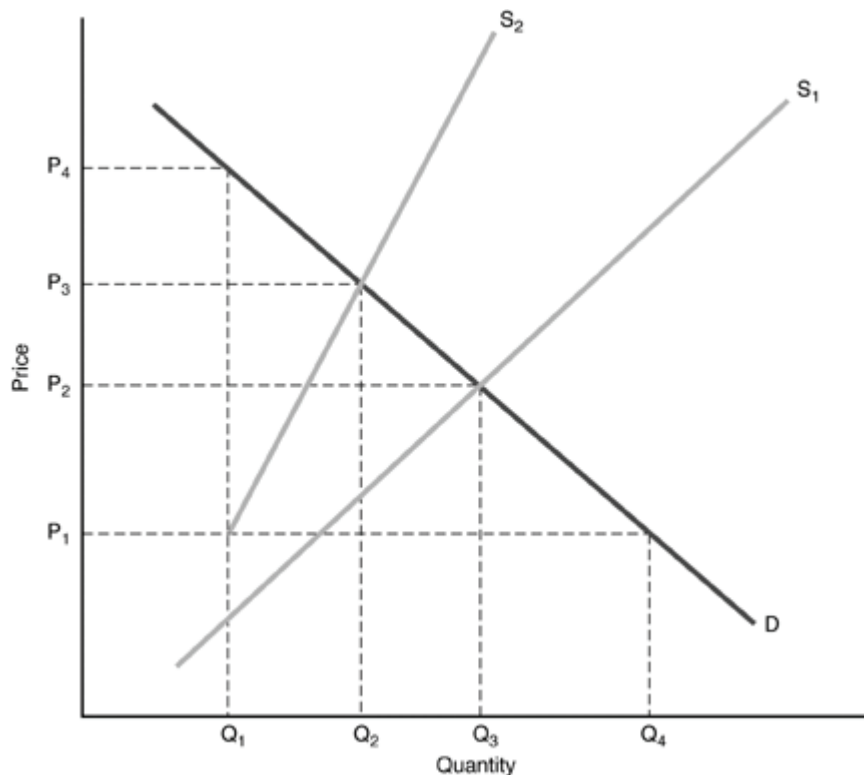
Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition



- 81) In the above figure, S_1 represents the supply curve which includes private costs, and S_2 is the supply curve which includes social costs. If the firm is producing a product that has external costs that the firm does NOT have to pay, what will be the equilibrium price and quantity?
- A) P_1, Q_4
 - B) P_2, Q_3
 - C) P_4, Q_1
 - D) P_3, Q_2

Answer: B

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 82) In the above figure, S_1 represents the supply curve which includes private costs, and S_2 is the supply curve which includes social costs. If the firm is producing a product that has external costs that the firm does have to pay, what will be the equilibrium price and quantity?

A) P_1, Q_4 B) P_2, Q_3 C) P_4, Q_1 D) P_3, Q_2

Answer: D

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 83) An externality occurs whenever

A) private costs are the same as social costs.
 B) private costs are the same as internal costs.
 C) private costs diverge from social costs.
 D) private costs plus internal costs equal social costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 84) A good that has external benefits associated with its production will be

A) produced at the optimal level. B) underproduced.
 C) overproduced. D) not produced.

Answer: B

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 85) A large farm uses fertilizer that nearby landowners complain may contaminate their water. Tests are conducted and contaminants are found. The costs resulting from this decision are referred to as

A) implicit costs. B) factor costs.
 C) external costs. D) opportunity costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 86) All of the following are examples of goods for which external costs commonly exist EXCEPT

A) cigarettes. B) automobiles.
 C) vaccinations. D) oil transportation.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

87) Which of the following is the main reason for externalities?

- A) The full cost of a transaction is not borne by the buyer/seller of the product.
- B) Police enforcement of scalping is not uniformly enforced.
- C) the lack of organized exchanges for all goods and services
- D) The production of public goods uses up scarce resources.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

88) Which one of the following is an example of an external cost?

- A) the cost to attend college
- B) labor costs to a firm
- C) emissions from a factory
- D) a house payment owed by a friend

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

89) You enter a classroom, which is littered with newspapers. This is because

- A) students are too lazy to clean up.
- B) maintenance people only clean once a day.
- C) it is a way to protest against the tuition rates.
- D) students do not pay for littering.

Answer: D

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Reflective thinking skills

Question Status: Previous Edition

90) Social costs of a good are equal to

- A) external costs minus private costs.
- B) private costs minus external costs.
- C) private costs plus external costs.
- D) external costs divided by the private costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

91) There is an externality present only when

- A) private costs diverge from social costs.
- B) private benefits diverge from social benefits.
- C) private costs or benefits diverge from social costs or benefits.
- D) private costs equal social costs.

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Previous Edition

- 92) An externality exists when
- A) there are private costs.
 - B) there are internal costs.
 - C) there are external costs.
 - D) there are opportunity costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Revised

- 93) A situation in which a private cost diverges from a social cost is
- A) internal costs.
 - B) an externality.
 - C) an internality.
 - D) a transactions cost.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Revised

- 94) A situation in where the costs of an action are not fully borne by the two parties engaged in exchange is
- A) an externality.
 - B) an internality.
 - C) internal costs.
 - D) a transactions cost.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Revised

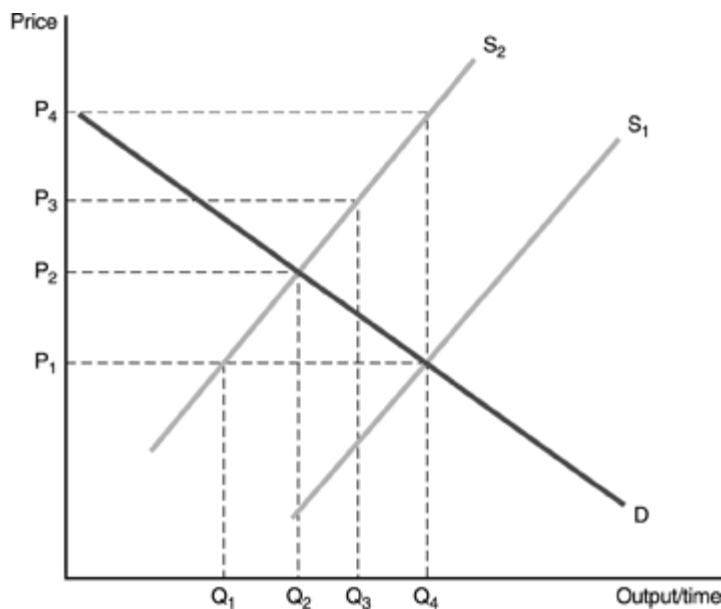
- 95) An externality is a situation in which
- A) private costs diverge from social costs.
 - B) internal costs diverge from private costs.
 - C) there are no social costs.
 - D) the cost borne by the consumer is greater than the monetary price.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Revised



- 96) Refer to the above figure. S_1 is the supply curve that includes only private costs. S_2 is the supply curve that includes social costs. If the firm sets output by focusing on private costs, the per-unit external cost will equal

A) P_2 . B) $P_4 - P_2$. C) $P_4 - P_1$. D) $P_2 - P_1$.

Answer: C

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

- 97) Refer to the above figure. S_1 is the supply curve that includes only private costs. S_2 is the supply curve that includes social costs. The free market rate of output is _____ and the corrected, socially optimal amount of output is _____.

A) Q_4 ; Q_1 B) Q_2 ; Q_1 C) Q_4 ; Q_2 D) Q_2 ; Q_4

Answer: C

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

- 98) Refer to the above figure. S_1 is the supply curve that includes only private costs. S_2 is the supply curve that includes social costs. From this figure we know that

A) an external benefit exists.
 B) private costs are less than social costs.
 C) private costs equal social costs.
 D) private costs are greater than social costs.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

99) The marginal cost curve of a firm measures

- A) external costs.
- B) pollution costs.
- C) private costs.
- D) social costs.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

Question Status: Revised

100) A good which has social costs that exceed private costs has a price

- A) equal to marginal social cost.
- B) that is too low.
- C) that is too high.
- D) that is inefficient because price exceeds marginal social cost.

Answer: B

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

101) A good that has social costs that exceed private costs has a quantity that is

- A) too high.
- B) too low.
- C) just right.
- D) the best society can do.

Answer: A

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

102) A good that has social costs that are equal to private costs has a price that is

- A) too high.
- B) too low.
- C) just right.
- D) equal to marginal cost.

Answer: C

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

103) A good that has social costs that are less than private costs has a quantity that is

- A) too high.
- B) too low.
- C) just right.
- D) equal to zero.

Answer: B

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

- 104) The inclusion of external costs in the decision making process determining equilibrium price and quantity leads to
- A) lower priced items and increased quantity.
 - B) lower priced items and a decline in quantity.
 - C) higher priced items and increased quantity.
 - D) higher priced items and a decline in quantity.

Answer: D

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

- 105) The inclusion of external benefits in the decision making process determining equilibrium price and quantity leads to
- A) lower priced items and increased quantity.
 - B) lower priced items and a decline in quantity.
 - C) higher priced items and increased quantity.
 - D) higher priced items and a decline in quantity.

Answer: A

Diff: 3

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Revised

- 106) What are social costs? How do they differ from private costs?

Answer: Social costs are costs borne by society whenever a resource use occurs. Social costs include private costs plus external costs, so when external costs are zero, social costs are the same as private costs.

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 107) What is an externality?

Answer: An externality is a situation in which private costs diverge from social costs because there are external costs. External costs are costs not borne by the parties engaged in the exchange or by an individual engaged in a resource-using activity.

Diff: 1

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

- 108) Why don't people take into consideration the external costs of their actions and reduce the amount of externalities?

Answer: People have no incentive to take into consideration the external costs of their actions. Since their utility or income would be lower if they bore all the costs associated with their activities, most people will not do so voluntarily.

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

109) What are the private costs of driving an automobile? What are the external costs?

Answer: The private costs include gas, maintenance, repair, depreciation, and insurance. External costs include the costs associated with air pollution, which include costs to clean cars and paint houses more often, increased health care costs, and the disutility of the air pollution.

Diff: 2

Topic: 31.1 Private versus Social Costs

AACSB: Analytic skills

Question Status: Previous Edition

110) "Private costs are borne by individuals while social costs are borne by society." Do you agree or disagree? Why?

Answer: Disagree. Social costs are private costs plus external costs, and external costs are borne by people who are not part of the exchange. They are still borne by individuals though.

Diff: 2

Topic: 31.1 Private versus Social Costs

Question Status: Revised

31.2 Correcting for Externalities

1) Which of the following is NOT a possible solution to the problem of pollution?

- A) Subsidizing the costs of production of activities that generate pollution
- B) Converting a resource that is communally owned into a privately owned resource
- C) Regulating the quantity of pollution that can be generated
- D) Imposing a pollution tax on producers

Answer: A

Diff: 1

Topic: 31.2 Correcting for Externalities

Question Status: Previous Edition

2) If external costs are included and added to a firm's private costs, then

- A) the demand curve will shift to the right.
- B) the demand curve will shift to the left.
- C) the supply curve will shift to the right.
- D) the supply curve will shift to the left.

Answer: D

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

3) A method of forcing a company to internalize the total cost of production is

- A) to impose a tax on the company to reduce production.
- B) to provide a subsidy to encourage production.
- C) for government not to interfere in the company's activities.
- D) to force the company to reduce the wages it pays to its employees.

Answer: A

Diff: 1

Topic: 31.2 Correcting for Externalities

Question Status: Previous Edition

- 4) If a firm is forced to take external costs into account, it will
- A) reduce production and charge a higher market price.
 - B) increase production and charge a lower market price.
 - C) reduce prices and hire more workers.
 - D) reduce prices and hire fewer workers.

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 5) If a firm is not forced to pay for external costs, it will
- A) continue to overproduce the good.
 - B) continue to under produce the good.
 - C) request a subsidy from the government.
 - D) raise prices.

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Economists typically suggest three choices that allow a polluter to decide how to absorb most, or perhaps all, of the social costs of its actions, which are
- A) continuing to overproduce the good, lowering the price of the good, or cutting output.
 - B) reducing the pollution-causing activity, changing production techniques, or paying a price to pollute.
 - C) installing pollution abatement equipment, paying to pollute, or just ignoring the issue.
 - D) paying a pollution tax, continuing to use existing production techniques, or continuing the polluting behavior without regard to the social implications.

Answer: B

Diff: 2

Topic: 31.2 Correcting for Externalities

Question Status: Previous Edition

- 7) Which of the following statements about pollution or pollution control is TRUE?
- A) A nationwide uniform tax on emissions is the appropriate way to reduce pollution levels.
 - B) A tax to reduce pollution levels should be based on the economic damages rather than on the absolute amount of pollution.
 - C) Private costs of pollution usually exceed social costs.
 - D) The optimum amount of pollution abatement is where the total benefits of pollution abatement equal the total costs of pollution abatement.

Answer: B

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 8) There are two coal-burning electrical utilities—one in tiny, rural Wanunu, Montana, and another in metropolitan Detroit, Michigan—and each produces the same amount of pollution per unit of output. If a permit tax is going to be used to force these firms to internalize pollution costs, the tax levied should be
- A) the same in each city.
 - B) higher in Wanunu than in Detroit.
 - C) higher in Detroit than in Wanunu.
 - D) less than zero in each city.

Answer: C

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 9) A difficulty with using a uniform per-unit tax to address a negative externality is that
- A) the tax will reduce output.
 - B) the tax will increase price.
 - C) the social cost of pollution might vary across geographic regions.
 - D) the social cost of pollution should not be assessed on the consumers, but should be assessed on the firms.

Answer: C

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 10) In order to internalize the externality due to pollution, the government should impose a tax based on
- A) the economic damage associated with the pollution.
 - B) the physical amount of pollution.
 - C) the size of the firm causing the pollution.
 - D) the value of the pollution-causing business activity.

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 11) To totally internalize an externality, a government can levy a tax related only to the physical quantity of pollution if
- A) the economic damages associated with the pollution are different across different locations.
 - B) the economic damages are too large to be determined.
 - C) the economic damages associated with the pollution are the same across different locations.
 - D) the economic damages are zero.

Answer: C

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 12) To correct for a negative externality, a government might impose a uniform tax related only to the physical quantity of pollution if
- A) the administrative costs are high.
 - B) the cost of ascertaining the actual economic costs are relatively small.
 - C) the economic damages are zero.
 - D) the economic damages associated with the pollution are different across different locations.

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: New

- 13) An externality refers to the idea that
- A) explicit costs differ from implicit costs.
 - B) decision-makers do not internalize all the costs.
 - C) we cannot do anything that does not affect other people.
 - D) private and internal costs differ.

Answer: B

Diff: 2

Topic: 31.2 Correcting for Externalities

Question Status: Previous Edition

- 14) Your neighbor has just planted some fragrant flowers. The wonderful scent drifts into your room and makes you happy.
- A) This scent is an internal cost to you.
 - B) This cannot be an externality since you are enjoying the scent.
 - C) This is an externality since you get a benefit from your neighbor's flowers.
 - D) The social cost of this activity is entirely borne by you neighbor.

Answer: C

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 15) If all firms had to bear all the social costs of their actions, we should observe marginal cost curves
- A) of all firms shifting up.
 - B) of some firms shifting up, of some others shifting down, and of the rest not shifting at all.
 - C) of all firms that had generated externalities shifting up while there would be no change for the rest of the firms.
 - D) of some firms shifting up and of the rest shifting down.

Answer: B

Diff: 3

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 16) In order to correct the problems associated with external costs,
- A) the signals given to the economy must change so that decision-makers will take into account all the costs of their actions.
 - B) the government must take over production of industries that are responsible for most of the pollution.
 - C) standards must be established that make it illegal to pollute.
 - D) the prices of all goods must be raised so people will consume less of the world's resources.

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Which of the following methods could be used to correct for external costs?
- A) Impose a tax or an effluent fee on the offenders.
 - B) Have the offender clean up the pollution it caused.
 - C) Require firms in the industry to install pollution control devices.
 - D) All of the above would be appropriate.

Answer: D

Diff: 2

Topic: 31.2 Correcting for Externalities

Question Status: Previous Edition

- 18) Suppose cars are taxed according to the amount of pollution they emit per gallon of gasoline consumed. We would expect to observe all of the following EXCEPT
- A) an increase in quantity demanded of less-polluting automobiles and a reduction in quantity demanded of more-polluting automobiles.
 - B) an increase in quantity demanded of more fuel-efficient cars.
 - C) an increase in production of automobiles that were less polluting.
 - D) an increase in the miles driven.

Answer: D

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 19) The most efficient way to get firms to reduce pollution is to
- A) set uniform emission standards and require all firms to meet the standards.
 - B) make the worst polluters shut down and go out of business.
 - C) make them pay for the social costs of production and let them decide how to respond to the higher costs.
 - D) provide firms and consumers with the information about the effects of their actions and encourage them to behave responsibly.

Answer: C

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 20) When a polluter has to bear the full social cost of their actions, they will
- A) weigh the costs and benefits of each potential action and might decide to not stop polluting by paying a fine.
 - B) go out of business since pollution abatement is expensive.
 - C) will always decide to reduce the amount of pollution by reducing the quantity they produce.
 - D) increase the price of the product and the quantity produced to pay for the additional costs.

Answer: A

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 21) To efficiently improve environmental quality, it is usually
- A) better to focus on the hardest areas to clean up first since these usually are the biggest problems.
 - B) more appropriate to concentrate on the physical quantities of pollution rather than on economic costs.
 - C) best to set up stringent emission standards that must be followed by everyone.
 - D) better to focus on economic damages rather than physical quantities of pollution.

Answer: D

Diff: 3

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 22) A uniform tax according to the physical quantities of pollution may not be the appropriate way to correct for an externality because
- A) it places a unfair burden on small producers.
 - B) a uniform tax can only account for social costs and not external costs.
 - C) a firm will reduce production.
 - D) it may not adequately account for economic damages.

Answer: D

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Which of the following might be a way that an automobile driver's pollution costs could be internalized?
- A) The driver could purchase abatement equipment for her car.
 - B) The state could eliminate the gas tax.
 - C) The state could pay a gas subsidy for everyone who drives.
 - D) The state could allow her to drive in the HOV lane.

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 24) When an external cost exists that is NOT taken into account in the production of a product,
- A) the level of output is too low, and the supply curve should shift to the right to account for the externality.
 - B) the level of output is optimal, and there should be no change in the supply curve.
 - C) the price of the product is too high, and production should be expanded to lower the price.
 - D) the level of output is too high, and the supply curve should shift to the left to account for the externality.

Answer: D

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

Output/Hour	Private MC	Marginal Benefit	External Marginal Costs
1	\$10	\$20	0.20
2	10.40	18.50	0.40
3	10.90	17	0.70
4	11.50	16.50	1.20
5	12.20	14.00	1.80
6	13.00	13.00	2.80
7	14.40	12.00	4.00

- 25) Use the above table. If the level of production was determined by the market, it would be
- A) 4.
 - B) 5.
 - C) 6.
 - D) 7.

Answer: C

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Use the above table. What will the price be before external costs are internalized with a tax?
- A) \$14
 - B) \$13
 - C) \$12.20
 - D) \$1.80

Answer: B

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: New

- 27) Use the above table. What will the output level be when external costs are internalized with a tax?

- A) 4
- B) 5
- C) 6
- D) 7

Answer: B

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Revised

28) Use the above table. What will the price be when external costs are internalized with a tax?

- A) \$14 B) \$13 C) \$12.20 D) \$1.80

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: New

29) Use the above table. What will the tax be when external costs are internalized?

- A) \$14 B) \$13 C) \$12.20 D) \$1.80

Answer: D

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: New

30) Use the information in the above table. The external marginal costs are

- A) increasing. B) decreasing.
C) constant. D) inverse to quantity produced.

Answer: A

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

31) The government imposes a tax on an industry that produces goods creating a negative externality. Yet the industry produces more than the optimum quantity of output. This means

- A) the tax is more than the external cost associated with the product.
B) the tax is less than the external cost associated with the product.
C) the company should advertise the product more.
D) the company should increase the production of the product.

Answer: B

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

32) The marginal cost to society of reducing pollution increases with the increased use of pollution abatement because

- A) of the diminishing marginal utility of abatement.
B) of the reduced demand for abatement.
C) of the diminishing returns from abatement.
D) of the high cost of abatement.

Answer: C

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 33) All of the following are choices for the polluter when faced with additional costs to abate the externality EXCEPT
- A) ignore the government regulations.
 - B) install pollution abatement equipment.
 - C) reduce the pollution-causing activity.
 - D) pay the price to pollute.

Answer: A

Diff: 2

Topic: 31.2 Correcting for Externalities

Question Status: Previous Edition

- 34) The government is considering levying a tax on the pollution generated from two electric power plants (Plant A and Plant B). Plant A is located in a city with a high density of population, and Plant B is located in the rural area with a low density of population. The government should
- A) levy the same tax per unit of pollution on both plants.
 - B) levy a higher tax per unit of pollution on Plant A because of its higher economic damage.
 - C) levy a higher tax per unit of pollution on Plant B because of its lower economic damage.
 - D) tax only Plant A but not Plant B because Plant B generates less revenue.

Answer: B

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 35) To correct for the social impact of pollution, the government should levy a per-unit tax
- A) that is the same for all polluters regardless of their locations or sizes.
 - B) according to the economic damage of the pollution.
 - C) according to the business activity of the polluter.
 - D) only to those polluters that can afford to pay for the tax.

Answer: B

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Suppose that the nation wide average cost of air pollution generated by a car is \$1,000. Would a tax of \$1,000 on every car induce people to take external costs into consideration and bring about the optimal price and output for autos? Explain.

Answer: Not necessarily. The \$1,000 is an average. Some cars cause more pollution and some less. Cars in Wyoming impose fewer external costs than cars in Los Angeles, and cars that are driven more miles pollute more. A system of pollution fines would be more effective in reducing pollution if the taxes differed depending on the make, with high-polluting cars taxed more, and if part of the tax were on gasoline to reflect cars driven more. We also would want taxes to differ depending on where the car was located.

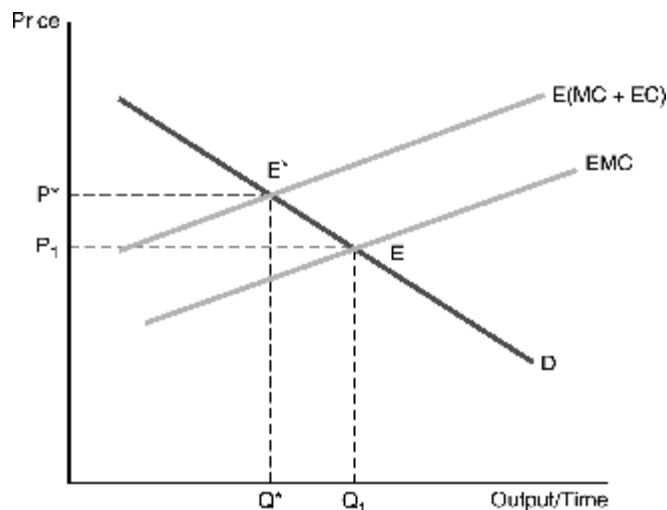
Diff: 3

Topic: 31.2 Correcting for Externalities

Question Status: Previous Edition

- 37) Using a graph, show the effects of a negative externality. Where is the socially optimum point of output? How can it be achieved?

Answer:



See the above figure. E is the equilibrium when people only take into consideration private costs, with output Q_1 and price P_1 . When external costs (EC) are added to private costs, the optimal point is E^* , with output Q^* and price P^* . That is, the social optimum with externalities is to produce less and charge a higher price than private costs alone indicates. If a tax is imposed that caused price to increase to P^* , or output were restricted to Q^* , the optimum could be achieved.

Diff: 2

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Is a uniform per-unit tax on firms that cause an externality an optimal policy for correcting the externality? Explain.

Answer: No. The concept of externality is about the economic costs rather than the amount of externality. The economic costs or damages can vary across different locations so that the optimal tax on pollution should also vary from location to location, depending on the size of economic damages.

Diff: 1

Topic: 31.2 Correcting for Externalities

AACSB: Analytic skills

Question Status: Previous Edition

31.3 Pollution

- 1) Assuming that pollution cannot be removed from the environment at zero cost, the optimal level of pollution

A) will be zero. B) will be negative.
C) will be positive. D) cannot be determined.

Answer: C

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 2) As we approach total pollution abatement

A) the marginal benefit to society declines.
B) the marginal benefit to society increases.
C) the marginal benefit to society increases, but at a decreasing rate.
D) the marginal cost to society declines.

Answer: A

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 3) As we approach total pollution abatement

A) the marginal cost to society falls.
B) the marginal cost to society rises.
C) the marginal cost to society equals the marginal benefit to society.
D) the marginal cost to society falls but then rises.

Answer: B

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 4) It is assumed that the marginal benefit of air cleanliness falls with the degree of cleanliness since

A) the marginal cost of air cleanliness increases.
B) air cleanliness is a public good and not a private good.
C) the marginal utility of air cleanliness falls with the degree of cleanliness.
D) the generation of pollution should be considered an externality.

Answer: C

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The marginal cost of pollution abatement is represented by
- A) an upward sloping curve.
 - B) a downward sloping curve.
 - C) a horizontal curve.
 - D) a vertical curve.

Answer: A

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 6) The marginal benefit of pollution abatement is represented by
- A) an upward sloping curve.
 - B) a downward sloping curve.
 - C) a horizontal curve.
 - D) a vertical curve.

Answer: B

Diff: 1

Topic: 31.3 Pollution

Question Status: New

- 7) Attaining higher and higher levels of air cleanliness causes
- A) additional costs to rise to increasingly high levels.
 - B) larger and larger increases in per capita incomes.
 - C) additional costs to fall to lower and lower levels.
 - D) larger and larger marginal benefits to society.

Answer: A

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 8) According to economic analysis, the optimal level of pollution is
- A) always zero.
 - B) at the point at which the marginal benefits of pollution control exceed the marginal cost.
 - C) at the point at which the marginal benefits of pollution control are less than the marginal cost.
 - D) at the point at which the marginal benefits from pollution control are equal to the marginal cost.

Answer: D

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 9) In the process of reducing pollutants in our environment, we are
- A) achieving a cleaner environment at no real cost.
 - B) causing higher levels of unemployment.
 - C) reallocating resources in an inefficient manner.
 - D) trading off less of other goods and services for a cleaner environment.

Answer: D

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 10) In general, we would expect the marginal cost of pollution abatement to be
A) zero. B) decreasing. C) increasing. D) constant.

Answer: C

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The marginal benefit from pollution abatement
A) increases as pollution abatement increases because people learn to want an even cleaner environment as the environment gets cleaner.
B) decreases as pollution abatement increases because of the law of diminishing marginal product.
C) is constant as pollution abatement increases because pollution abatement is valued for its own sake and not for the utility it provides.
D) decreases as pollution abatement increases because of the law of diminishing marginal utility.

Answer: D

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 12) The total benefits to society from pollution abatement
A) increase at an increasing rate with the increase of pollution abatement.
B) increase at a decreasing rate with the increase of pollution abatement.
C) decrease at an increasing rate with the increase of pollution abatement.
D) decrease at a decreasing rate with the increase of pollution abatement.

Answer: B

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 13) The optimal quantity of air pollution is
A) whatever amount of pollution is produced by the profit maximizing firm.
B) found by equating the marginal benefits from further reductions in pollution and the marginal costs of further reductions in pollution.
C) found by setting the quantity of air pollution equal to the quantity of water pollution.
D) a meaningless concept since monetary values cannot be attached to problems associated with pollution.

Answer: B

Diff: 2

Topic: 31.3 Pollution

Question Status: Previous Edition

- 14) Which of the following statements concerning pollution is correct?
- A) Economic efficiency requires that pollution be completely eliminated.
 - B) Economic efficiency dictates that the optimal amount of pollution arises at the point at which price equals private marginal cost.
 - C) Pollution should be reduced to the point at which the marginal benefit from further reduction equals the marginal cost of further reduction.
 - D) Pollution should be reduced to the extent necessary to return production to the production possibilities frontier.

Answer: C

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 15) In economic analysis, the optimal level of pollution
- A) is always zero.
 - B) arises at the point at which the marginal benefit from further reduction equals the marginal cost of further reduction.
 - C) occurs at the point at which demand crosses the private cost supply curve.
 - D) should be determined by the private market without any government intervention.

Answer: B

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 16) From an economic standpoint, the amount of pollution should be
- A) zero.
 - B) the amount that allows firms to maximize profits.
 - C) the amount where firms are earning a normal rate of return on investment.
 - D) at the point at which the marginal benefit from further reduction equals the marginal cost of further reduction.

Answer: D

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 17) The optimal amount of pollution is not zero because
- A) it has been found that pollution in moderate amounts actually has positive benefits.
 - B) there are no benefits to anyone from having zero pollution.
 - C) zero pollution would be too costly.
 - D) we don't have the political structure that could accomplish the goal.

Answer: C

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

18) The marginal benefit of pollution abatement

- A) increases at an increasing rate as abatement increases.
- B) decreases as pollution abatement increases because of the law of diminishing marginal utility.
- C) increases as pollution abatement increases because of the law of increasing marginal returns.
- D) is constant as pollution abatement increases.

Answer: B

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

19) The costs of pollution abatement

- A) increase at an increasing rate with the increase in pollution abatement.
- B) increase at a decreasing rate with the increase in pollution abatement.
- C) decrease at an increasing rate with the increase in pollution abatement.
- D) decrease at a decreasing rate with the increase in pollution abatement.

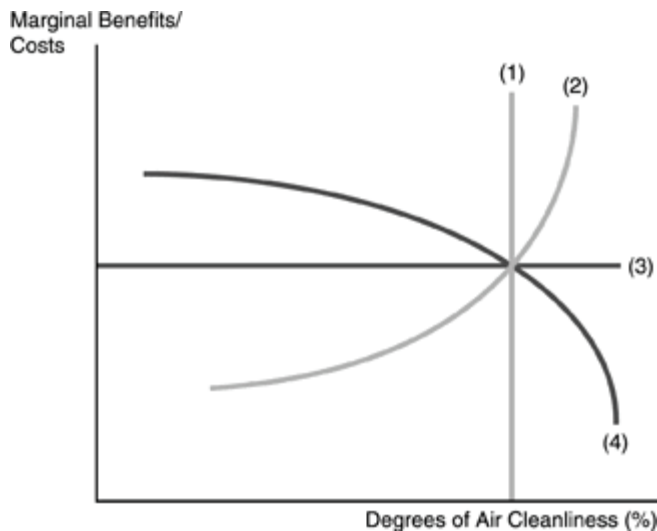
Answer: A

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition



20) Refer to the above figure. The marginal cost of pollution abatement is curve

- A) (1).
- B) (2).
- C) (3).
- D) (4).

Answer: B

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Refer to the above figure. The marginal benefit of pollution abatement is curve
 A) (1). B) (2). C) (3). D) (4).

Answer: D

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Refer to the above figure. If the marginal cost curve for pollution abatement shifts to the right, everything considered, the
 A) degree of air quality or cleanliness will also decrease.
 B) the degree of air quality or cleanliness will stay unchanged.
 C) the degree of air quality will improve.
 D) the marginal cost of pollution abatement has nothing to do with air quality.

Answer: C

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Refer to the above figure. Suppose the marginal benefit and the marginal cost curves of pollution abatement are normally shaped. Technological change that made it easier to produce in a "cleaner" fashion would cause
 A) curve (4) to shift out, increasing the optimal amount of pollution abatement.
 B) curve (3) to shift up, raising the marginal benefits and costs and reducing the amount of pollution abatement.
 C) curve (2) to shift out, increasing the optimal amount of pollution abatement.
 D) curve (1) to shift out, increasing the optimal amount of pollution abatement.

Answer: C

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Refer to the above figure. Suppose the marginal benefit and the marginal cost curves of pollution abatement are normally shaped. Suppose the equilibrium is for a factory in Los Angeles. What would happen if the same factory were in the middle of Nevada?
 A) The marginal cost curve (1) would shift to (2) and there would be no difference in the level of abatement.
 B) The marginal cost curve (2) would shift to the left and there would be less abatement in Nevada.
 C) The marginal benefit curve (4) would shift to the left and there would be less abatement in Nevada.
 D) The marginal benefit curve (2) would shift to the right and there would be more abatement in Nevada.

Answer: C

Diff: 3

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

25) The marginal cost curve of pollution abatement is

- A) downward sloping.
- B) upward sloping.
- C) horizontal.
- D) vertical.

Answer: B

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

26) Technological change that makes it easier to produce in a "cleaner" fashion would cause

- A) the marginal cost curve of pollution abatement to shift left, increasing the degree of air quality.
- B) the marginal cost curve of pollution abatement to shift right, increasing the degree of air quality
- C) the marginal benefit curve of pollution abatement to shift right, increasing the degree of air quality
- D) the marginal benefit curve of pollution abatement to shift left, increasing the degree of air quality

Answer: B

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: New

27) Suppose people value clean air more as their incomes increase, then

- A) the marginal cost curve of pollution abatement to shift left, increasing the degree of air quality.
- B) the marginal cost curve of pollution abatement to shift right, increasing the degree of air quality
- C) the marginal benefit curve of pollution abatement to shift right, increasing the degree of air quality
- D) the marginal benefit curve of pollution abatement to shift left, increasing the degree of air quality

Answer: C

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: New

28) The marginal cost curve of pollution abatement

- A) slopes upward because of the law of diminishing product.
- B) slopes upward because firms will maximize profits.
- C) slopes downward because of the law of diminishing marginal utility.
- D) slopes downward because of the law of diminishing returns.

Answer: A

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 29) The optimal amount of air pollution is
- A) found by equating the marginal benefits from reducing pollution by one more unit with the marginal costs of reducing pollution by an additional unit.
 - B) found by equating the total benefits from reducing pollution by one more unit with the total costs of reducing pollution by an additional unit.
 - C) found by setting the marginal benefits from reducing pollution by one more unit equal to zero.
 - D) a meaningless concept since we cannot monetize the environment.

Answer: A

Diff: 2

Topic: 31.3 Pollution

Question Status: Previous Edition

- 30) Which of the following statements is true about the optimal quantity of pollution?
- A) It equals zero.
 - B) Pollution abatement should continue up to the point where marginal cost equals the average total cost.
 - C) Trade-offs exist between producing a cleaner environment and producing other goods and services.
 - D) Firms should be allowed to determine the profit-maximizing amount of pollution abatement.

Answer: C

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Why is the optimal quantity of pollution not less than the point at which the marginal benefit equals the marginal cost?
- A) The point of intersection occurs at a low level of pollution.
 - B) There are no external costs below that level.
 - C) Below that point firms will have to reduce the quantity that they are currently producing and lower the price.
 - D) Below that point the value that people place on less pollution is less than the cost of reducing the pollution.

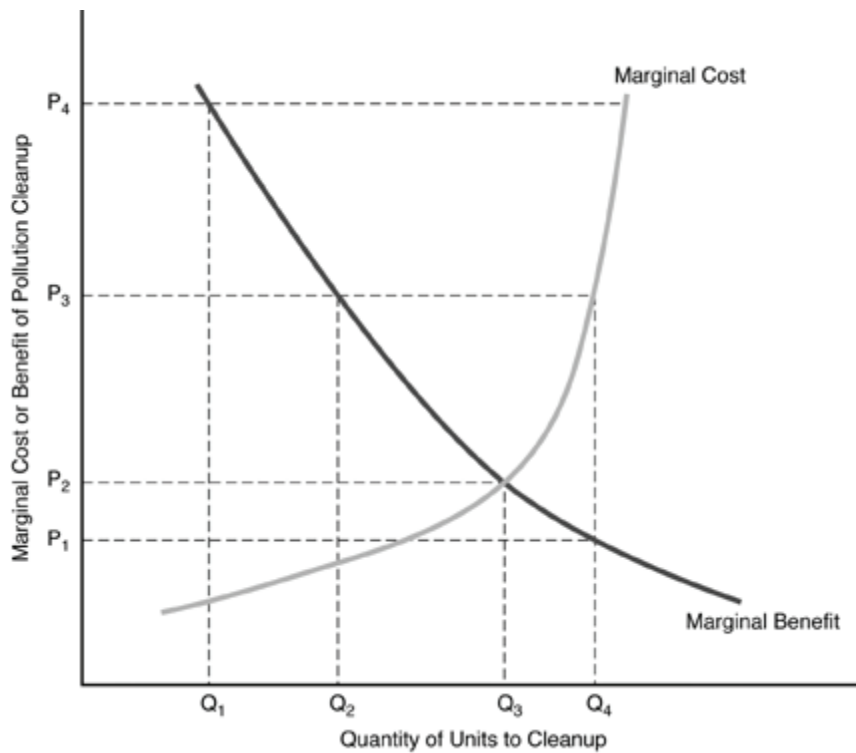
Answer: D

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition



- 32) In the above figure, the optimal level of pollution cleanup is
 A) Q_1 . B) Q_2 . C) Q_3 . D) Q_4 .

Answer: C

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 33) In the above figure, if a firm is cleaning up Q_4 units of pollution, it is an
 A) efficient solution, because marginal social benefits are greater than marginal social costs.
 B) efficient solution, because marginal social benefits are equal to marginal social costs.
 C) inefficient solution, because marginal social benefits are greater than marginal social costs.
 D) inefficient solution, because marginal social costs are greater than marginal social benefits.

Answer: D

Diff: 3

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 34) In the above figure, if a firm is cleaning up Q_2 units of pollution, it is an
- A) efficient solution, because marginal social benefits are greater than marginal social costs.
 - B) efficient solution, because marginal social benefits are equal to marginal social costs.
 - C) inefficient solution, because marginal social benefits are greater than marginal social costs.
 - D) inefficient solution, because marginal social costs are greater than marginal social benefits.

Answer: C

Diff: 3

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 35) In the above figure, if a firm is cleaning up Q_3 units of pollution, it is an
- A) efficient solution because marginal social benefits are greater than marginal social costs.
 - B) efficient solution because marginal social benefits are equal to marginal social costs.
 - C) inefficient solution because marginal social benefits are greater than marginal social costs.
 - D) inefficient solution because marginal social costs are greater than marginal social benefits.

Answer: B

Diff: 3

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 36) According to economic analysis, the optimal quantity of pollution exists at the point at which the
- A) total benefit of pollution control is equal to the total cost.
 - B) marginal benefit of pollution control is equal to the marginal cost.
 - C) level of pollution is at zero.
 - D) level of pollution is acceptable to the society.

Answer: B

Diff: 2

Topic: 31.3 Pollution

Question Status: Previous Edition

- 37) Pollution
- A) creates a negative externality.
 - B) is increased when property rights are defined.
 - C) is the result of capitalism.
 - D) exists because air and water are privately owned resources.

Answer: A

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

38) The idea that it takes 90 percent of your time to clean up the last 10 percent of your house illustrates that

- A) the marginal cost of cleaning up slopes downward.
- B) the marginal cost of cleaning up slopes upward.
- C) the marginal benefit of cleaning up is constant.
- D) the marginal benefit of cleaning up slopes upward.

Answer: B

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

39) The marginal benefit of the pollution abatement curve

- A) has a zero slope.
- B) has a positive slope.
- C) slopes upward.
- D) slopes downward.

Answer: D

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

40) Voluntary agreements about cleaning up pollution attempt to

- A) internalize externalities.
- B) internalize private costs.
- C) externalize social costs.
- D) externalize private costs.

Answer: A

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

41) Generally, as levels of pollution are reduced,

- A) marginal benefits from the reduction decrease.
- B) marginal benefits from the reduction increase.
- C) marginal costs from the reduction decrease.
- D) marginal cost from the reduction are constant.

Answer: A

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

42) Generally, as levels of pollution are reduced,

- A) marginal benefits from the reduction increase.
- B) marginal costs from the reduction increase.
- C) marginal costs from the reduction stay the same.
- D) marginal costs from the reduction decrease.

Answer: B

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

43) The level of pollution at which the marginal benefits equal the marginal cost of cleaning up is always

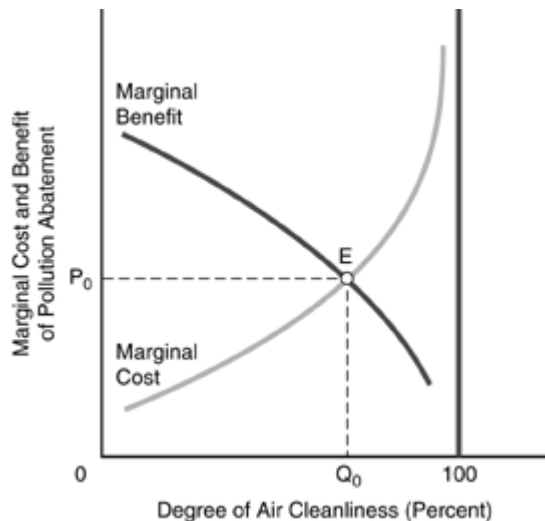
- A) the zero pollution level.
- B) the optimal quantity of pollution.
- C) the pollution maximum.
- D) the pollution minimum.

Answer: B

Diff: 2

Topic: 31.3 Pollution

Question Status: Previous Edition



44) In the above figure,

- A) the optimal degree of air cleanliness is less than 100 percent.
- B) the marginal cost curve slopes up because of the law of diminishing returns.
- C) Neither A nor B are correct.
- D) Both A and B are correct.

Answer: D

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

45) The optimal quantity of pollution in the above figure

- A) is defined as the level where the marginal benefit is at a maximum.
- B) is where the optimal degree of air cleanliness is 100 percent.
- C) is the level of pollution at which the marginal benefit equals the marginal cost.
- D) cannot be determined.

Answer: C

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

Quantity of Clean Air (%)	Marginal Cost (\$)	Marginal Benefit (\$)
0	10,000	100,000
25	25,000	50,000
50	37,500	37,500
75	75,000	25,000
100	Infinite	0

- 46) The above table shows marginal costs and marginal benefits of clean air in a particular industrial area. In the table, when the quantity of clean air is at 25 percent,
- A) the quantity of polluted air is 25 percent.
 - B) the marginal benefit of clean air exceeds the marginal cost.
 - C) the marginal benefit of clean air is less than the marginal cost.
 - D) the quantity of clean air is optimal.

Answer: B

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 47) The above table shows marginal costs and marginal benefits of clean air in a particular industrial area. In the table, when the quantity of clean air is at 75 percent,
- A) the quantity of polluted air is 75 percent.
 - B) the marginal benefit of clean air exceeds the marginal cost.
 - C) the marginal benefit of clean air is less than the marginal cost.
 - D) the quantity of clean air is optimal.

Answer: C

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: New

- 48) In the above table, the optimal quantity of clean air is
- A) 25 percent.
 - B) 50 percent.
 - C) 75 percent.
 - D) 100 percent.

Answer: B

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 49) The marginal cost of pollution abatement is the
- A) additional cost to clean up an additional unit of pollution.
 - B) additional benefit from cleaning up an additional unit of pollution.
 - C) total social costs of pollution clean-up divided by total social benefits.
 - D) total social costs of pollution clean-up divided by the total units of clean-up.

Answer: A

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 50) The marginal benefit of pollution abatement is the
- A) additional cost to clean up an additional unit of pollution.
 - B) additional benefit from cleaning up an additional unit of pollution.
 - C) total social costs of pollution clean-up divided by total social benefits.
 - D) total social costs of pollution clean-up divided by the total units of clean-up.

Answer: B

Diff: 1

Topic: 31.3 Pollution

Question Status: Previous Edition

- 51) Explain how the optimal quantity of air pollution is determined.

Answer: As the air becomes cleaner, the marginal benefit of air cleanliness diminishes, reflecting the fact that the more clean air we breathe, the less we value an additional unit of cleanliness. The marginal cost of air cleanliness increases as air becomes cleaner, however, reflecting the fact that attaining each additional unit of air cleanliness requires incurring higher additional costs. The optimal amount of air cleanliness (or the optimal amount of pollution) arises at the point at which the marginal benefit of clean air equals the marginal cost.

Diff: 2

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 52) "The optimal level of pollution is zero." Do you agree or disagree? Why?

Answer: Disagree. There are costs to cleaning up pollution. Therefore, the optimal level of pollution arises at the point at which the marginal benefit from further reducing pollution equals the marginal cost of further reducing pollution.

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

- 53) Suppose people value clean air more as their incomes increase. What would happen to the optimal amount of clean air as a country develops economically? Is there an economic prediction we can make from this?

Answer: The optimal amount of clean air would increase because the marginal benefit curve of clean air would shift out as incomes rose. We would expect richer countries to spend more on air pollution clean up than poorer countries.

Diff: 3

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

54) Why do economists believe that it is socially optimal to have some amount of pollution?

Answer: Economists recognize the trade-off between producing a cleaner environment and producing other goods and services. Zero pollution could be achieved only if people give up resources for producing other goods and services. The optimal amount of pollution is therefore determined by equating the marginal cost and marginal benefit of reducing pollution at very high levels of pollution abatement, and the marginal cost for zero pollution is much higher than its marginal benefit.

Diff: 1

Topic: 31.3 Pollution

AACSB: Analytic skills

Question Status: Previous Edition

31.4 Common Property

1) When negative externalities exist, a voluntary agreement can be negotiated. Which of the following statements is true?

- A) Voluntary agreements usually do not work since the owner has no incentive to negotiate.
- B) Transactions costs must be low relative to the expected benefits of reaching an agreement.
- C) Voluntary agreements are difficult to negotiate because they usually involve government intervention.
- D) Voluntary agreements always leave the owner worse off.

Answer: B

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Revised

2) Which of the following would be viewed as a common property problem?

- A) Your property is burglarized.
- B) Vandals damage your property.
- C) People pick all of the flowers in a public park.
- D) To be safe you must lock your door at night.

Answer: C

Diff: 1

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

3) All the costs associated with making, reaching, and enforcing agreements are called

- A) private costs.
- B) internal costs.
- C) transaction costs.
- D) social costs.

Answer: C

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 4) The exclusive rights of ownership that allow the use, transfer, and exchange of property are called
- A) common property rights.
 - B) private property rights.
 - C) externalities.
 - D) social benefits.

Answer: B

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 5) Economic theory suggests that if natural resources can be held as private property, then
- A) conservation will be nonexistent.
 - B) owners will have an incentive not to abuse them.
 - C) natural resources will be sold off for immediate use.
 - D) people will simply hold them and refuse to make them available.

Answer: B

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Common property ownership is most apt to lead to
- A) an efficient allocation of resources.
 - B) production at a rate at which price is less than social cost.
 - C) a decrease of externalities.
 - D) an increase in pollution.

Answer: D

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 7) When no property rights exist,
- A) no one has an economic incentive to care for common property, and an externality may well occur.
 - B) there will be no production.
 - C) externalities will be internalized by voluntary arrangements among a small group of parties.
 - D) society will produce beyond the production possibilities frontier, but the allocation of resources is not apt to be optimal.

Answer: A

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Private property rights involve
- A) exclusive rights to use, transfer, and exchange the property.
 - B) exclusive rights to use property, but not to exchange the property.
 - C) rights to enjoy the property in any way desired but not to transfer or exchange the property.
 - D) rights granted by the government for renewable terms of 100 years or more.

Answer: A

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 9) Common property is
- A) property that has mineral or oil deposits.
 - B) a resource that everyone is free to use as much as they want.
 - C) property owned by a group such as a club.
 - D) property that has little economic value.

Answer: B

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 10) Buffalo in the United States almost became extinct while cattle have never been close to extinction. The difference is due to
- A) the greater marginal value of a buffalo relative to a head of cattle, leading to greater "harvesting" of buffalo.
 - B) the use of private property rights on cattle and common property rights on buffalo.
 - C) the greater marginal value of a head of cattle relative to buffalo, leading to over-hunting of buffalo.
 - D) the differences in size between the two animals, and the effect of size differences on the costs of hunting them.

Answer: B

Diff: 2

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 11) Government intervention will not be necessary when voluntary contracting internalizes an externality. Which of the following is NOT a necessary condition for this to occur?
- A) Well-defined private property rights
 - B) Low transaction costs
 - C) Large numbers of individuals involved in the transactions
 - D) Low contract enforcement costs

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 12) The costs associated with reaching and enforcing agreements are called
- A) private property costs.
 - B) common property costs.
 - C) transaction costs.
 - D) public costs.

Answer: C

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 13) With defined property rights, an externality
- A) can only be corrected with government intervention.
 - B) will not lead to a misallocation of resources.
 - C) may be internalized with voluntary contracting, under certain circumstances.
 - D) must lead to society producing inside its production possibilities frontier.

Answer: C

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 14) A farmer notices that a neighboring rancher's cattle are wandering and destroying some of his crops. The farmer decides to offer a payment to the rancher if the rancher will reduce the size of his herd. By doing so, the farmer
- A) can be sure that the size of the herd will be reduced and the size of his own harvest will be increased.
 - B) indicates to the rancher that there is an opportunity cost to the wandering of the cattle, and thereby internalizes the externality.
 - C) inadvertently bears the costs of the externality when the rancher should be liable for the costs.
 - D) informs the rancher that the cattle have destroyed crops, which should induce the farmer to build a fence in order to maintain good relations.

Answer: B

Diff: 2

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 15) One difficulty in using voluntary transactions to internalize externalities is that
- A) people are motivated by self-interest and are often unwilling to engage in a transaction that might make another person better off.
 - B) the government usually will not enforce contracts of this type.
 - C) transaction costs of coming to an agreement can be very large when numerous people are involved.
 - D) people usually don't understand what the real opportunity costs are that they face.

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

16) Transaction costs are

- A) the costs, such as sales taxes, that are imposed by the government.
- B) equal to the hourly cost of a lawyer used to write a contract.
- C) the costs associated with making, reaching, and enforcing agreements.
- D) not true costs because they relate to time rather than real resources.

Answer: C

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

17) In general, pollution exists if

- A) people are unconcerned about the hazards associated with pollution.
- B) there are poorly defined private property rights.
- C) there are poorly defined common property rights.
- D) profit-making activity is taken to an extreme.

Answer: B

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

18) The crux of the problem of pollution is

- A) a poorly run Environmental Protection Agency.
- B) greed on the part of consumers.
- C) greed on the part of producers.
- D) poorly defined property rights are expensive to enforce.

Answer: D

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

19) Changing the ownership of the ocean from common property to private property would

- A) ensure that this resource would be allocated in a more efficient manner.
- B) ensure that this resource would be allocated in a less efficient manner than under common property rights.
- C) not be economically desirable.
- D) result in no appreciable change in efficiency of utilization of this resource.

Answer: A

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

20) Exclusive rights of ownership that allow the use, transfer, and exchange of property are called

- A) common property rights.
- B) nonexclusive property rights.
- C) private property rights.
- D) public property rights.

Answer: C

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 21) When no one owns a particular resource,
 A) property rights are clearly defined.
 B) individuals have legal recourse for any damages caused to their resource.
 C) no one has any incentive to consider externality spillovers associated with that resource.
 D) positive externalities will arise.

Answer: C

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: New

- 22) Private property rights are
 A) an externality.
 B) a social cost.
 C) property that is owned by everyone and therefore by no one.
 D) exclusive rights of ownership.

Answer: D

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 23) Common property is
 A) an externality.
 B) a social cost.
 C) property that is owned by everyone and therefore by no one.
 D) exclusive rights of ownership.

Answer: C

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 24) Common property often results in
 A) a negative externality.
 B) a social benefit.
 C) a private cost.
 D) exclusive rights of ownership.

Answer: A

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: New

- 25) Common property is
 A) a resource that everyone is free to use as much as they want.
 B) property that belongs to both spouses in a marriage.
 C) property owned by a group such as a club or a church.
 D) generic property as opposed to specific property.

Answer: A

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

26) In general, pollution exists in situations in which

- A) people are selfish.
- B) people refuse to take social responsibility seriously.
- C) there are poorly defined private property rights.
- D) there exists public property.

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

27) Joe has broken the mirror of my car. I have legal recourse to sue for damages because of

- A) social costs.
- B) transactions costs.
- C) common property rights.
- D) private property rights.

Answer: D

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

28) Buffalo in the United States almost became extinct while cattle, an animal that provides similar products, never has been close to extinction. The difference is due to

- A) the greater marginal value of a head of cattle relative to buffalo, leading to over-hunting of buffalo.
- B) the greater marginal value of a buffalo relative to a steer, leading to the overharvesting of buffalo.
- C) cattle existing in Europe also while buffalo were specific to North America.
- D) the use of private property rights on cattle and common property rights on buffalo.

Answer: D

Diff: 3

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

29) Transaction costs are

- A) the costs associated with making a transaction that is required by the government.
- B) not true costs since they are often not paid.
- C) the costs associated with exchanges in the service area.
- D) the costs associated with making, reaching and enforcing agreements.

Answer: D

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

30) Which of the following is a true statement?

- A) Externalities cannot be solved by market solutions and always require government action.
- B) Externalities would never be a problem if people were willing to comply with government regulations.
- C) Voluntary agreements can solve externality situations by making the party incurring the costs bear the costs of his or her actions.
- D) Externalities can only be handled by government regulation and emission taxes cannot work effectively.

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

31) Your neighbor in an apartment complex plays his music very loudly late at night, which makes it difficult for you to get to sleep. You offer the neighbor \$50, the monetary value you put on your sleep, to never play his music between midnight and 7 AM. By doing so,

- A) you have failed to bring about an efficient solution since you should have complained to the police.
- B) you have indicated the cost of the externality. The externality is not internalized even if he accepts your offer.
- C) you have indicated the cost of the externality, which internalizes the externality.
- D) you have indicated a willingness to make the external cost a social cost.

Answer: C

Diff: 3

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

32) Which of the following is a true statement?

- A) Any property right system will yield a situation in which all externalities are internalized.
- B) Voluntary agreements can always yield a situation in which all externalities are internalized.
- C) Opportunity costs always exist with whoever has property rights.
- D) Opportunity costs turn external costs into social costs.

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

33) Voluntary agreements may not be a feasible method to internalize an externality when

- A) the dollar value of the externality is large.
- B) the externality is negative rather than positive.
- C) there are significant transaction costs.
- D) there are high taxes on the firms that cause the externalities.

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

34) In which of the following externality situations would it be most likely that voluntary agreements could be used to internalize an externality?

- A) Littering on highways
- B) Overharvesting of alligators in Louisiana
- C) Poaching of elephants in Africa
- D) Trees of one neighbor blocking a view of another

Answer: D

Diff: 2

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

35) Which of the following is NOT a possible solution to the problem of pollution?

- A) Converting a resource that is communally owned into a privately owned resource.
- B) Imposing a tax on polluters that is related to the amount of pollution.
- C) Regulating the amount of pollution that a firm can produce.
- D) Subsidizing the costs of production of activities that generate pollution.

Answer: D

Diff: 2

Topic: 31.4 Common Property

Question Status: Previous Edition

36) The best method to reduce pollution is

- A) to never start polluting.
- B) to establish private property rights.
- C) dependent upon the characteristics of the resources and the transaction costs.
- D) dependent upon the quality of government bureaucrats and the level of greed in the society.

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

37) When there is a resource for which property rights are not well defined and there is a difference between private costs and social costs, then all but which of the following is a way to close the difference?

- | | |
|---------------------------|---------------|
| A) The free market system | B) Taxation |
| C) Subsidization | D) Regulation |

Answer: A

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

38) Common property

- | | |
|---------------------------------|------------------------------|
| A) is owned by everyone. | B) is owned by no one. |
| C) Neither A nor B are correct. | D) Both A and B are correct. |

Answer: D

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 39) The exclusive rights of ownership of property are generally referred to as
- A) level property rights.
 - B) private property rights.
 - C) public property rights.
 - D) common property rights.

Answer: B

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 40) A resource that is a common property is
- A) oil on land owned by a drilling and refining company.
 - B) natural gas on land owned by an energy producer.
 - C) timber on land owned by a lumber company.
 - D) water in a publicly owned river.

Answer: D

Diff: 1

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 41) Property that is owned by everyone and therefore by no one in particular is referred to as
- A) common property.
 - B) social property.
 - C) private property.
 - D) commercial property.

Answer: A

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 42) Property owned by everyone (and thus no one in particular) is generally referred to as
- A) social property.
 - B) private property.
 - C) common property.
 - D) natural property.

Answer: C

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 43) Which of the following is NOT an example of common property?
- A) a trampoline
 - B) air
 - C) gravity
 - D) sunshine

Answer: A

Diff: 2

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 44) Which type of property would be the most likely to experience pollution?
- A) common property
 - B) private property
 - C) property held in partnership
 - D) corporate property

Answer: A

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 45) For voluntary action to correct an externality,
- A) transaction costs have to be high.
 - B) transaction costs have to be low.
 - C) transaction costs have to be split evenly between all of the parties involved.
 - D) transaction costs are irrelevant.

Answer: B

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 46) All of the costs associated with making and enforcing contracts are referred to as
- A) alternative costs.
 - B) opportunity costs.
 - C) marginal costs.
 - D) transactions costs.

Answer: D

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 47) In a situation in which property rights are not well-defined and social costs exceed private costs, government can use all of the following to induce producers to bring private costs into alignment with social costs EXCEPT
- A) taxing production.
 - B) coercive limits on production.
 - C) subsidization of production.
 - D) regulation of production.

Answer: C

Diff: 1

Topic: 31.4 Common Property

Question Status: Previous Edition

- 48) Suppose a large tree on Adam's property blocks Eve's view of the ocean. Adam accepts Eve's offer of \$15,000 to cut down the tree. This is an example of
- A) internalizing externalities via voluntary agreements.
 - B) a result of logrolling.
 - C) a consequence of a positive externality.
 - D) a consequence of private costs exceeding social costs.

Answer: A

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 49) The costs associated with the negotiation and enforcement of an agreement are
- A) property costs.
 - B) resource factor costs.
 - C) transaction costs.
 - D) attorney fees.

Answer: C

Diff: 2

Topic: 31.4 Common Property

Question Status: Previous Edition

50) When property rights are clearly defined, there is generally a

- A) law that must be passed to ensure fairness.
- B) regulatory agency that handles externalities.
- C) common property problem.
- D) voluntary agreement that can be reached.

Answer: D

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

51) In order for a voluntary agreement to be reached in general, transaction costs should be

- A) infinite.
- B) high relative to expected marginal benefits of the agreement.
- C) low relative to expected marginal benefits of the agreement.
- D) determined by the Environmental Protection Agency.

Answer: C

Diff: 2

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

52) What is common property? What does common property have to do with externalities?

Answer: Common property is property that is owned by everyone, so no one can be excluded from using it. There is a tendency to overuse common property, which means that people can use it and pass some of their costs on to others. That is, externalities are likely to be associated with common property.

Diff: 1

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

53) Why are externalities associated with common property rather than private property?

Answer: When private property rights exist, individuals can take someone to court and collect damages when the actions of that person damage the individual's property. When the person has to pay damages, the externality is internalized. With common property, no one can exclude anyone else and there is no legal recourse for collecting damages from the person.

Diff: 3

Topic: 31.4 Common Property

AACSB: Analytic skills

Question Status: Previous Edition

- 54) Explain why the buffalo almost became extinct while cattle did not, even though both provide similar goods for people.

Answer: Cattle have been privately owned for most of human history while the buffalo was a common property resource. A person obtained private property rights on a buffalo by killing it, so they were overhunted. With private property rights, people have an incentive to husband the resource so there will be animals available in the future.

Diff: 3

Topic: 31.4 Common Property

AACSB: Reflective thinking skills

Question Status: Previous Edition

31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

- 1) The Framework Convention on Climate Change took place in
- A) the 1973–1979 Tokyo Round
 - B) the 1987–1993 Uruguay Round
 - C) the 1997 Kyoto Protocol
 - D) the 2001 Doha Round

Answer: C

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

- 2) In the Kyoto Protocol, participating nations agreed to
- A) trade carbon-dioxide permits.
 - B) eliminate all emissions of greenhouse gases by 2020.
 - C) reduce their overall emissions of greenhouse gases between 1997 and 2020 to as much as 20 percent below 1990 levels.
 - D) buy greenhouse gas emission permits from developing nations.

Answer: C

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

- 3) In 2005, the European Union began a program to
- A) reduce greenhouse gas emissions by 10 percent within 5 years.
 - B) eliminate greenhouse gas emissions by 50 percent within 15 years.
 - C) subsidize firms that pollute more than a given limit.
 - D) allow the trading of carbon-dioxide permits among firms.

Answer: D

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

- 4) In a market for emission permits, firms that emit over their allowed limits
- A) are forced to shut down.
 - B) are taxed by the government for the amount of emissions.
 - C) receive a subsidy for the amount of emissions.
 - D) pay a price of these emissions.

Answer: D

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

- 5) In a market for emission permits, firms that emit over their allowed limits
- A) are forced to shut down.
 - B) are taxed by the government for the amount of emissions.
 - C) will sell their excess allowances through a trading system.
 - D) must buy more allowances through a trading system.

Answer: D

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: New

- 6) In a market for emission permits, firms that emit below their allowed limits
- A) will buy even more allowances through a trading system.
 - B) are taxed by the government for the amount of emissions.
 - C) receive a subsidy for the amount of emissions.
 - D) will sell their excess allowances through a trading system.

Answer: D

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: New

- 7) In theory, the Emissions Trading Scheme would
- A) cause firms to generate more pollution than their allowed limits.
 - B) cause firms to generate less pollution than their allowed limits.
 - C) raise the production costs of all firms.
 - D) lower the production costs of all firms.

Answer: B

Diff: 2

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

8) Under the Emissions Trading Scheme, what would happen if governments reduce firms' pollution caps?

- A) The market clearing price of pollution permits will increase.
- B) The market cleaning price of pollution permits will decrease.
- C) The marketing cleaning price of pollution permits will not change.
- D) The marketing clearing price of pollution permits will cease to exist.

Answer: A

Diff: 2

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

9) The 1997 Kyoto Protocol was signed by

- A) only the United States and the European Union.
- B) only nations in Asia.
- C) more than three dozen nations.
- D) all nations in the world.

Answer: C

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

10) The Kyoto Protocol was signed by participating nations in

- A) 1872.
- B) 1972.
- C) 1997.
- D) 2007.

Answer: C

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

11) Participating nations in the 1997 Kyoto Protocol agreed to reduce overall greenhouse gases emission

- A) to as much as 20 percent below the levels of the 1990s through 2020.
- B) to as much as 10 percent below the levels of the 1990s through 2010.
- C) to as much as 100 percent below the levels of the 1990s through 2007.
- D) to as much as 50 percent below the levels of the 1990s through 2100.

Answer: A

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

12) The Emission Trading Scheme of the European Union

- A) created a market for pollutants.
- B) sets a cap on the amount of pollutants in each country.
- C) allowed firms to benefit from emitting pollutants.
- D) sets the amount of per-unit tax on each pollutant.

Answer: A

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

13) Which of the following best describes the impact of the Emissions Trading Scheme in the European Union between 2005 and the late 2000s?

- A) Overall greenhouse gas emissions increased.
- B) Overall greenhouse gas emissions decreased.
- C) Overall greenhouse gas emissions were totally eliminated.
- D) Overall greenhouse gas emissions were constant.

Answer: A

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

14) Which of the following was signed in the Kyoto Protocol?

- A) The Framework Convention on Climate Change
- B) The Zero Greenhouse Gas Agreement
- C) The Treaty on Global Warming
- D) The Emission Trading Scheme

Answer: A

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

15) Participating nations in the 1997 Kyoto Protocol agreed to reduce overall greenhouse gases emission through 2020 to

- A) as much as 20 percent below the levels in the 1990s.
- B) as much as 5 percent below the levels in the 1990s.
- C) as much as 50 percent below the levels in the 1990s.
- D) as much as 50 percent below the levels in the 1960s.

Answer: A

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

16) The EU Emission Trading Scheme created a market for

- A) permits to emit greenhouse gases.
- B) cigarettes.
- C) marijuana.
- D) devices that lower the global temperature.

Answer: A

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

17) Which of the following is TRUE of the European Union's Emissions Trading Scheme?

- A) Firms are taxed based on their pollution levels.
- B) Firms are forced to shut down when they exceed their pollution limits.
- C) Governments subsidize firms to develop devices to reduce pollution.
- D) Firms can trade pollution permits to meet their pollution limits.

Answer: D

Diff: 1

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

18) By 2006, the market price of European Union emissions allowances dropped because

- A) governments set their overall emission caps too high.
- B) firms had drastically reduced their emissions.
- C) firms underreport their emission amounts.
- D) the market did not clear.

Answer: A

Diff: 2

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

19) If pollution is bad, why do we still use pollution-causing resources such as coal and oil to generate electricity?

- A) Governments lack the political will to enforce the use of pollution free resources.
- B) The cost of using pollution free resources to generate power in many circumstances is much higher than generating that same power through conventional pollution-causing means.
- C) Pollution is only a private cost.
- D) The transaction costs of pollution is too low.

Answer: B

Diff: 2

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution-Causing Activities

AACSB: Analytic skills

Question Status: New

- 20) Explain how a market for pollutant emission allowances can induce firms to reduce the amount of emissions.

Answer: In the market for emission allowances, firms that exceed their pollution limits must buy allowances from firms that have unutilized allowances available. If the government tightens the pollution limits, then more firms have to purchase allowances, driving up the market clearing price of the allowances. Firms that have to pay for the higher price of allowances would have an incentive to reduce their emissions.

Diff: 2

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

- 21) "Creating a free market for carbon–dioxide emission permits would only encourage firms to pollute more." Do you agree or disagree? Why?

Answer: Disagree. In a market of carbon–dioxide permits, firms that exceed their pollution limits must buy permits from firms that emit less than their limits. If an increase number of firms pollute more than their limits, then the market clearing price of the permits will increase. A higher price of the permits will induce firms to reduce their emissions.

Diff: 2

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

- 22) "Creating a free market for carbon–dioxide emission permits would only encourage firms to pollute more." Do you agree or disagree? Why?

Answer: Disagree. In a market of carbon–dioxide permits, firms that exceed their pollution limits must buy permits from firms that emit less than their limits. If an increase number of firms pollute more than their limits, then the market clearing price of the permits will increase. A higher price of the permits would only induce firms to reduce their emissions.

Diff: 2

Topic: 31.5 Reducing Humanity's Carbon Footprint: Restraining Pollution–Causing Activities

AACSB: Analytic skills

Question Status: Previous Edition

31.6 Wild Species, Common Property, and Trade–Offs

- 1) Many ecologists argue that several species of whales are close to extinction. If this is true, the reason is

- A) inadequate enforcement of international laws.
- B) whales are a type of common property.
- C) the marginal benefit of hunting and killing a whale is greater than zero.
- D) whale–killing technology is too productive.

Answer: B

Diff: 3

Topic: 31.6 Wild Species, Common Property, and Trade–Offs

AACSB: Reflective thinking skills

Question Status: Revised

- 2) All of following are commonly considered to be common property EXCEPT
- A) spotted owls in the wild.
 - B) fish in an ocean.
 - C) chickens raised in a farm.
 - D) wild salmon in a river.

Answer: C

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 3) Which of the following is most likely to be common property?
- A) a cat in a house
 - B) farm raised catfish in Alabama
 - C) tuna in the Pacific Ocean
 - D) cattle in a Texas ranch

Answer: C

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 4) Which of the following are most likely to become an endangered species?
- A) animals in the wild
 - B) domesticated animals
 - C) animals that people like to keep at home as pets
 - D) animals that people have property rights to own

Answer: A

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

Question Status: Previous Edition

- 5) Endangered species are likely to be
- A) private property.
 - B) common property.
 - C) both private and common property.
 - D) neither private nor common property.

Answer: B

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

Question Status: Previous Edition

- 6) Protecting endangered species are likely to be
- A) a private cost.
 - B) a public cost.
 - C) both private and public costs.
 - D) neither a private nor public cost.

Answer: B

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: New

- 7) Which of the following is TRUE about species in the world?
- A) Most extinct species became extinct within the past 30 years.
 - B) The majority of extinct species became extinct before humans appeared.
 - C) Extinct species became extinct only after human appeared.
 - D) No species has ever become extinct.

Answer: B

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The trade-off of saving the spotted owls in the Pacific Northwest was
- A) the loss of salmon in the region.
 - B) the increase in the number of marbled murrelets.
 - C) the loss of logging activities by lumber companies.
 - D) none.

Answer: C

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 9) Which of the following is most likely to be private property?
- A) bees
 - B) house flies
 - C) farm raised chickens
 - D) winds

Answer: C

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 10) Wild animals are likely to be
- A) private property.
 - B) endangered species.
 - C) domesticated by humans.
 - D) all of the above.

Answer: B

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

Question Status: Previous Edition

- 11) The Endangered Species Act is an attempt to
- A) protect endangered species against greedy loggers, farmers, and business people.
 - B) protect endangered species from the overzealousness of many environmentalists.
 - C) protect species endangered because there are no private property rights on them.
 - D) prevent some people from earning a good living.

Answer: C

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 12) For endangered species, the federal government
- A) can only protect the animal on federal property because of common property issues.
 - B) has the right to regulate activities on private land to save the species from extinction.
 - C) turns over the protection of an endangered species to the state authorities where the species lives.
 - D) will capture a pair of animals so that the species does not become extinct.

Answer: B

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Saving endangered species
- A) benefits all people in society without any trade-off.
 - B) must involve the loss of another species.
 - C) may involve a trade-off in terms of the loss of other economic activities.
 - D) requires the government to list those species as common property.

Answer: C

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The problem associated with endangered populations of migratory birds is the
- A) common property problem.
 - B) free rider problem.
 - C) deadweight loss problem.
 - D) inefficient production problem.

Answer: A

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 15) The problem of overfishing in waters that are commonly owned can be solved by
- A) the use of the Coase Theorem.
 - B) establishing property rights for fishing in the waters.
 - C) subsidizing fishing.
 - D) allowing the market to ration fish.

Answer: B

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 16) The problem of overfishing in waters that are commonly owned can be solved when the government determines the total amount of fish can be removed from a given area during each fishing season. Then the fishermen
- A) will not be able to fish.
 - B) can trade their rights (shares) to fish or not.
 - C) will externalize their private costs to the government.
 - D) will lower their private costs to fish.

Answer: B

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: New

- 17) The Endangered Species Act has
- A) caused a loss of economic activities on some private land.
 - B) saved all endangered species without affecting anyone.
 - C) further reduced the number of endangered species.
 - D) had no impact on either the number of endangered species or other economic activities.

Answer: A

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Approximately what percentage of the world's extinct species became extinct before humans appeared on earth?
- A) 1 percent
 - B) 10 percent
 - C) 20 percent
 - D) more than 99 percent

Answer: D

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Today, the earth has _____ of all of the species that have ever lived.
- A) less than 1 percent
 - B) about 50 percent
 - C) about 99 percent
 - D) 100 percent

Answer: A

Diff: 1

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 20) "The number of species on earth is decreasing drastically and economic development is the main factor for the problem." Do you agree or disagree? Why?

Answer: Disagree. First, it is unclear that the number of species on earth is decreasing drastically: While estimates of the number of species dying off are between a low of one every four years to a higher of 50,000 per year, many new species are discovered every year. Also, economic development itself is not the main factor for the extinction of many species. Instead, the main reason is related to the issue of property rights as most endangered species are common property, or property without property rights.

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Why are most endangered species belong to common property?

Answer: In contrast to private property, most endangered species are common property to which no one has a property right and thus has no vested interest in ensuring that their populations survive over time.

Diff: 2

Topic: 31.6 Wild Species, Common Property, and Trade-Offs

AACSB: Analytic skills

Question Status: Previous Edition