ECO 1104 E, MID #2, FALL 2010

V/T	F					V/T	F					V/T	F				
1	A	B	C	D	E	61	A	B	C	D	E	121	A	B	C	D	E
2	A	B	C	D	E	62	A	B	C	D	E	122	A	B	C	D	E
3	A	B	C	D	E	63	A	B	C	D	E	123	A	B	C	D	E
4	A	B	C	D	E	64	A	B	C	D	E	124	A	B	C	D	E
5	A	B	C	D	E	65	A	B	C	D	E	125	A	B	C	D	E
6	A	B	C	D	E	66	A	B	C	D	E	126	A	B	C	D	E
7	A	B	C	D	E	67	A	B	C	D	E	127	A	B	C	D	E
8	A	B	C	D	E	68	A	B	C	D	E	128	A	B	C	D	E
9	A	B	C	D	E	69	A	B	C	D	E	129	A	B	C	D	E
10	A	B	C	D	E	70	A	B	C	D	E	130	A	B	C	D	E
11	A	B	C	D	E	71	A	B	C	D	E	131	A	B	C	D	E
12	A	B	C	D	E	72	A	B	C	D	E	132	A	B	C	D	E
13	A	B	C	D	E	73	A	B	C	D	E	133	A	B	C	D	E
14	A	B	C	D	E	74	A	B	C	D	E	134	A	B	C	D	E
15	A	B	C	D	E	75	A	B	C	D	E	135	A	B	C	D	E
16	A	B	C	D	E	76	A	B	C	D	E	136	A	B	C	D	E
17	A	B	C	D	E	77	A	B	C	D	E	137	A	B	C	D	E
18	A	B	C	D	E	78	A	B	C	D	E	138	A	B	C	D	E
19	A	B	C	D	E	79	A	B	C	D	E	139	A	B	C	D	E
20	A	B	C	D	E	80	A	B	C	D	E	140	A	B	C	D	E
21	A	B	C	D	E	81	A	B	C	D	E	141	A	B	C	D	E
22	A	B	C	D	E	82	A	B	C	D	E	142	A	B	C	D	E
23	A	B	C	D	E	83	A	B	C	D	E	143	A	B	C	D	E
24	A	B	C	D	E	84	A	B	C	D	E	144	A	B	C	D	E
25	A	B	C	D	E	85	A	B	C	D	E	145	A	B	C	D	E
26	A	B	C	D	E	86	A	B	C	D	E	146	A	B	C	D	E
27	A	B	C	D	E	87	A	B	C	D	E	147	A	B	C	D	E
28	A	B	C	D	E	88	A	B	C	D	E	148	A	B	C	D	E
29	A	B	C	D	E	89	A	B	C	D	E	149	A	B	C	D	E
30	A	B	C	D	E	90	A	B	C	D	E	150	A	B	C	D	E
31	A	B	C	D	E	91	A	B	C	D	E	151	A	B	C	D	E
32	A	B	C	D	E	92	A	B	C	D	E	152	A	B	C	D	E
33	A	B	C	D	E	93	A	B	C	D	E	153	A	B	C	D	E
34	A	B	C	D	E	94	A	B	C	D	E	154	A	B	C	D	E
35	A	B	C	D	E	95	A	B	C	D	E	155	A	B	C	D	E
36	A	B	C	D	E	96	A	B	C	D	E	156	A	B	C	D	E
37	A	B	C	D	E	97	A	B	C	D	E	157	A	B	C	D	E
38	A	B	C	D	E	98	A	B	C	D	E	158	A	B	C	D	E
39	A	B	C	D	E	99	A	B	C	D	E	159	A	B	C	D	E
40	A	B	C	D	E	100	A	B	C	D	E	160	A	B	C	D	E
41	A	B	C	D	E	101	A	B	C	D	E	161	A	B	C	D	E
42	A	B	C	D	E	102	A	B	C	D	E	162	A	B	C	D	E
43	A	B	C	D	E	103	A	B	C	D	E	163	A	B	C	D	E
44	A	B	C	D	E	104	A	B	C	D	E	164	A	B	C	D	E
45	A	B	C	D	E	105	A	B	C	D	E	165	A	B	C	D	E
46	A	B	C	D	E	106	A	B	C	D	E	166	A	B	C	D	E
47	A	B	C	D	E	107	A	B	C	D	E	167	A	B	C	D	E
48	A	B	C	D	E	108	A	B	C	D	E	168	A	B	C	D	E
49	A	B	C	D	E	109	A	B	C	D	E	169	A	B	C	D	E
50	A	B	C	D	E	110	A	B	C	D	E	170	A	B	C	D	E
51	A	B	C	D	E	111	A	B	C	D	E	171	A	B	C	D	E
52	A	B	C	D	E	112	A	B	C	D	E	172	A	B	C	D	E
53	A	B	C	D	E	113	A	B	C	D	E	173	A	B	C	D	E
54	A	B	C	D	E	114	A	B	C	D	E	174	A	B	C	D	E
55	A	B	C	D	E	115	A	B	C	D	E	175	A	B	C	D	E
56	A	B	C	D	E	116	A	B	C	D	E	176	A	B	C	D	E
57	A	B	C	D	E	117	A	B	C	D	E	177	A	B	C	D	E
58	A	B	C	D	E	118	A	B	C	D	E	178	A	B	C	D	E
59	A	B	C	D	E	119	A	B	C	D	E	179	A	B	C	D	E
60	A	B	C	D	E	120	A	B	C	D	E	180	A	B	C	D	E

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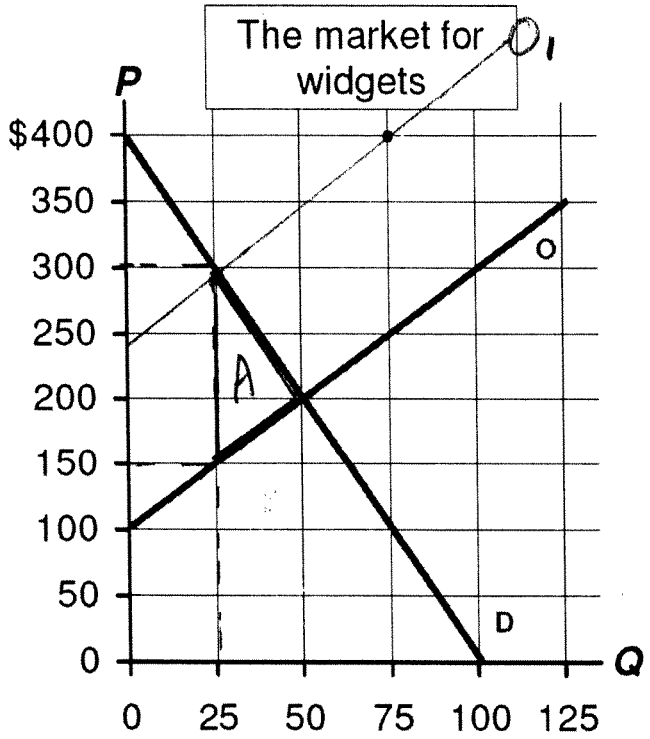
Short-Answer Questions (20 points)
Answer in the space provided.

41. (5 points) Consider the market for widgets as described in the figure below.



Estimate the deadweight loss of a $150 tax on widgets?

Deadweight loss : area of Triangle A

$= \frac{150 \times 25}{2} = \$1875$

(3 points for identifying triangle A
2 points for calculating area)

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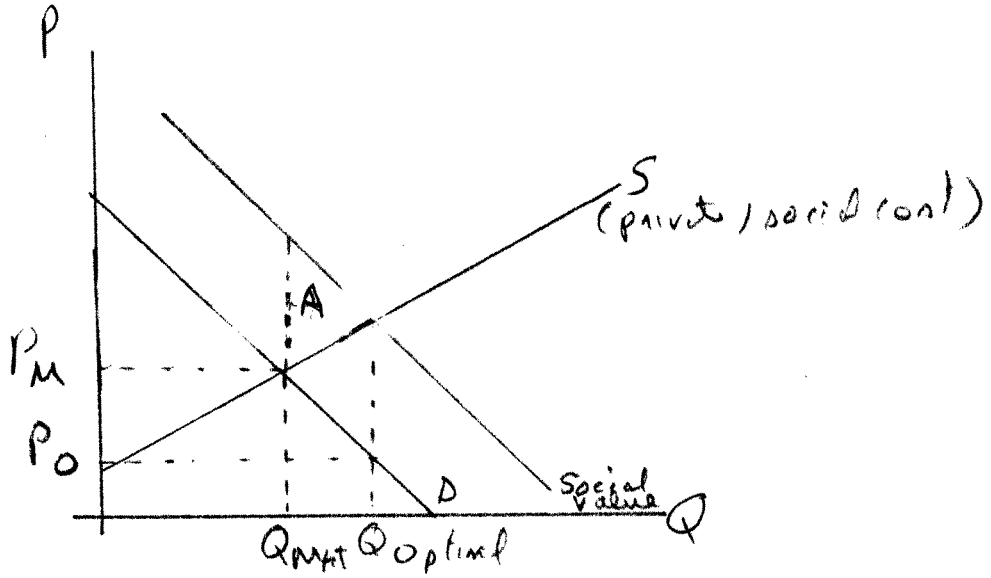
42. (5 points) Using a supply and demand diagram, demonstrate how a positive externality leads to market inefficiency. How might the government help to eliminate this inefficiency?



- From a social point of view, the optimal quantity is reached when Marginal Social Value = Marginal Social cost that is where Supply Curve intersect with Social value curve. As a result, $Q_{optimal} > Q_{market}$. And at Q_{market}, the deadweight loss in area of triangle A, that is the area between Q_{market} and $Q_{optimal}$ where Social value exceeds Social/private cost.
- A subsidy equal to the externality would correct the inefficiency.

(2 points for chart
2 points for explanation,
1 point for policy)

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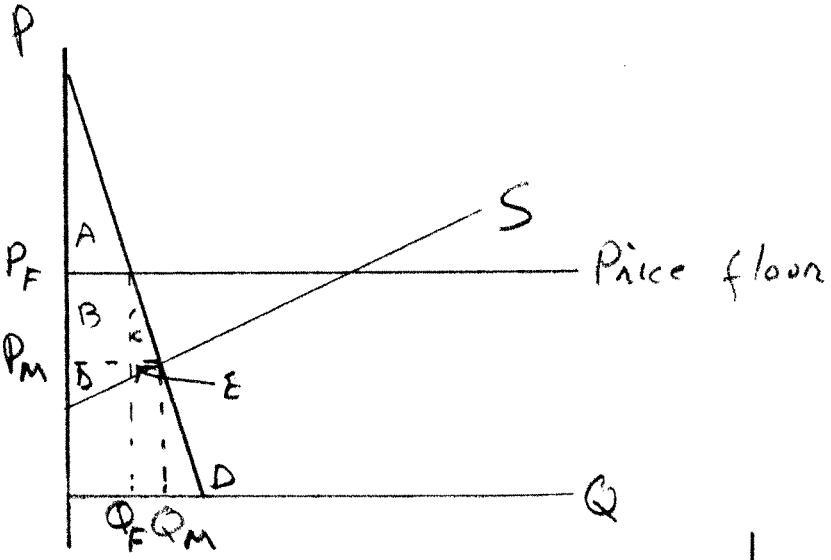
43. (10 points) Using supply and demand analysis, show the effect on economic welfare of the introduction of an effective price floor on milk. Who would you expect to benefit from this price floor, the dairy farmers or the consumers of milk? Who would you expect to be hurt? You may want to use a graph to explain your answers.

Market for milk (inelastic demand) (1)



4 points for graph

	At Q_M	At Q_F	Δ
CS	A+B+C	A	-(B+C)
PS	D+E	B+D	(B-E)
Total	A+B+C+D+E	A+B+D	-(C+E)

3 points (1½ point for each entry)

(1) - Economic welfare ↓ as deadweight loss = -(D+E) < C

(1) - Consumers loose (B+C) in surplus while producers (that is, dairy farmers) gain (B-E).