

CHAPTER 18 – ANSWERS TO THE QUICK QUIZ QUESTIONS

- Q1 a. Market effects, not externalities. Restricting coffee export causes coffee price to rise, which, in turn, causes tea price to rise because of increased demand for tea.
b. A negative externality. Price charged by the advertising firm does not incorporate the externality of distracting drivers.
- Q2 a. $Q = 6$
b. $Q = 8$
c. Merging the two business, or the two parties enter into a contract for pollination services.
- Q3 a. $P = \$30$ per lot, and $Q = 100,000$ lots
b. $P = \$48.75$ per lot, and $Q = 62,500$ lots
c. The decline in equilibrium quantity and the rise in equilibrium price in part (b) because the external costs were considered.