Solution

Econ 301 Intermediate Microeconomics
Chapter 16 Quiz

1. A positive externality is...
   A. A cost imposed on a third party not directly involved in a transaction.
   B. A benefit received by a third party not directly involved in a transaction.
   C. An external cost with a positive derivative.

2. A negative externality is...
   A. A cost imposed on a third party not directly involved in a transaction.
   B. A benefit received by a third party not directly involved in a transaction.
   C. An external cost with a negative derivative.

3. The optimal level of pollution...
   A. occurs when marginal social benefit > marginal social cost.
   B. occurs when marginal social benefit = marginal social cost.
   C. occurs when marginal social benefit < marginal social cost.
   D. is no pollution.

4. A Pigouvian tax sets the tax on production of some good equal to
   A. marginal private cost.  B. marginal external cost.  C. marginal social cost.

5. One advantage of tradeable permits, a.k.a. “cap and trade” systems of pollution (or negative externality) abatement is that
   A. it is not susceptible to uncertainty about what the optimal level of pollution should be.
   B. it allows regulators to know firms’ costs with certainty.
   C. it allows the firms with the cheapest cost of reducing pollution to reduce pollution first.

6. Which one of the following is true for nonexcludable goods:
   A. When person consumes a unit of the good it doesn’t prevent another person from consuming a unit of the good.
   B. It is impossible or at least prohibitively costly for producers to keep consumers who have not paid from consuming the good.
   C. They include a warranty.

7. Which one of the following is true for nonrivalrous goods:
   A. When person consumes a unit of the good it doesn’t prevent another person from consuming a unit of the good.
   B. It is impossible or at least prohibitively costly for producers to keep consumers who have not paid from consuming the good.
   C. There are no substitutes for the good.

8. A common-pool resource is a good or resource which is
   A. rivalrous and excludable  B. nonrivalrous and excludable  C. rivalrous and nonexcludable  D. nonrivalrous and nonexcludable

9. A public good is a good which is
   A. rivalrous and excludable  B. nonrivalrous and excludable  C. rivalrous and nonexcludable  D. nonrivalrous and nonexcludable

10. The Coase theorem says that the optimal level of an externality will be produced when...
    A. bargaining is costless and the producer owns the rights to the externality.
    B. bargaining is costless and the third party owns the rights to the externality.
    C. bargaining is costless and anyone owns the rights to the externality.
    D. bargaining is expensive and anyone owns the rights to the externality.