

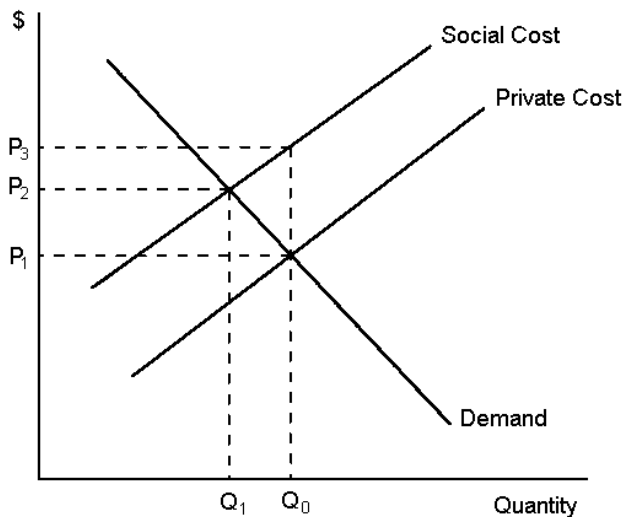
## Chapter 10 Practice Exam

### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. Negative externalities occur when one person's actions
- cause another person to lose money in a stock market transaction.
  - cause his or her employer to lose business.
  - reveal his or her preference for foreign-produced goods.
  - adversely affect the well-being of a bystander (or bystanders) who is (are) not party to a market exchange.
- \_\_\_\_\_ 2. To produce honey, beekeepers place hives of bees in orchards and crop fields. As bees gather nectar that they use to produce honey, they pollinate the orchards and fields increasing their yields of fruit and grain. This arrangement results in
- a positive externality that solely benefits the beekeeper.
  - no significant additional benefit to anyone.
  - a positive externality that benefits only the owner of the fields of fruit and grain.
  - positive externalities that benefit both the beekeeper and the owner of the fields of fruit and grain.

**Graph 10-3**



Use the figure shown to answer the following questions.

- \_\_\_\_\_ 3. Refer to Graph 10-3. The figure shown reflects the presence of
- a negative production externality.
  - a positive production externality.
  - a negative consumption externality.
  - a positive consumption externality.
- \_\_\_\_\_ 4. Markets are inefficient when positive production externalities are present because
- private benefits of consumption exceed social benefits of consumption when the

market is in equilibrium.

- b. social costs of production exceed private costs of production when the market is in equilibrium.
- c. social benefits of consumption exceed private benefits of consumption when the market is in equilibrium.
- d. private costs of production exceed social costs of production when the market is in equilibrium.

- \_\_\_\_\_ 5. Internalizing a positive production externality through a government subsidy will cause the industry's supply curve to
- a. remain unchanged.
  - b. shift down by an amount less than the subsidy.
  - c. shift down by an amount equal to the subsidy.
  - d. shift down by an amount greater than the subsidy.
- \_\_\_\_\_ 6. To ensure the market reaches the social optimum in presence of a technology spillover, the government should subsidize producers by
- a. use of a Pigovian tax.
  - b. an amount equal to the value of the technology spillover.
  - c. helping those companies that are adversely affected by the new technology.
  - d. transferring income to the low income portion of the population.
- \_\_\_\_\_ 7. All remedies for externalities share the goal of
- a. moving the allocation of resources toward the market equilibrium.
  - b. moving the allocation of resources toward the social optimum.
  - c. increasing the allocation of resources.
  - d. decreasing the allocation of resources.
- \_\_\_\_\_ 8. Dick owns a dog whose barking annoys Dick's neighbor Jane. Suppose that the benefit of owning the dog is worth \$500 to Dick and that Jane bears a cost of \$700 from the barking. Assuming Dick has the legal right to keep the dog, a possible private solution to this problem is that
- a. Jane pays Dick \$500 to get rid of the dog.
  - b. Dick pays Jane \$650 for her inconvenience.
  - c. Jane pays Dick \$650 to get rid of the dog.
  - d. There is no private solution that would improve this situation.
- \_\_\_\_\_ 9. If only a few people are affected by an externality, then it is likely that
- a. Pigovian taxes will provide the most efficient solution to the externality.
  - b. command and control regulation will provide the most efficient solution to the externality.
  - c. a private solution to the inefficiency will occur.
  - d. a private solution will be very difficult to negotiate.
- \_\_\_\_\_ 10. In Singapore, property taxes on an automobile can exceed the purchase price of a new automobile. Assuming that the tax is a fixed percentage of market value, this tax is an example of
- (i) a policy in which private incentives are used to reduced the traffic externality on congested roads in Singapore.
  - (ii) the government's direct control over the number of automobiles that are purchased.
  - (iii) a policy in which private incentives are used to reduce automobile pollution.
- a. (i) and (ii) only
  - b. (i) and (iii) only

- c. (ii) and (iii) only
  - d. All of the above
- \_\_\_ 11. Which of the following is a command-and-control policy?
- a. subsidies
  - b. pollution permits
  - c. regulation
  - d. all of the above
- \_\_\_ 12. The Environmental Protection Agency (EPA) is an agency that has a mandate to address externality problems by
- a. regulating polluting industries.
  - b. monitoring polluting industries.
  - c. imposing taxes on polluting industries.
  - d. all of the above.
- \_\_\_ 13. A clean environment is a good like any other good. In fact, it is most likely a(n)
- a. price inelastic good.
  - b. low cost good.
  - c. inferior good.
  - d. normal good.
- \_\_\_ 14. Which of the following policies is government most inclined to use when faced with a positive externality?
- a. taxation
  - b. permits
  - c. subsidies
  - d. usage fees