

Economics Second Midterm Exam

Study Guide

1. How did we define negative and positive externalities?
2. How can we analyze the effect of externalities on resource allocations?
3. How did we find an efficient private solution to overproduction or underproduction in the presence of an externality? What if negotiations between the parties are costly?
4. How can the effects of externalities be remedied using taxes or subsidies?
5. Why is the optimal amount of a negative externality almost always higher than zero?
6. You need to be familiar with concept of the tragedy of the commons and describe how private ownership is a way of preventing it.
7. You need to be able to define positional externalities and their effects, and show how they can be remedied.
8. How can middlemen add value to market transactions? How does the free-rider problem interfere with incentives?
9. You need to be able to use the concept of rational search to find the optimal amount of information market participants should obtain.
10. Can you define the concept of asymmetric information and describe how it leads to the lemons problem?
11. You need to be familiar with the concepts of rivalry and excludability and describe how they can be used to distinguish among private goods, public goods, collective goods, and common goods.
12. Which economic concepts can be used to find the optimal quantity of a public good?
13. Can you describe the ways in which private firms can supply public goods?
14. You should be able to analyze the types of efficiencies and inefficiencies that are associated with provision of a public good.
15. You need to be familiar with the criteria that should be applied to taxation to promote efficiency.