

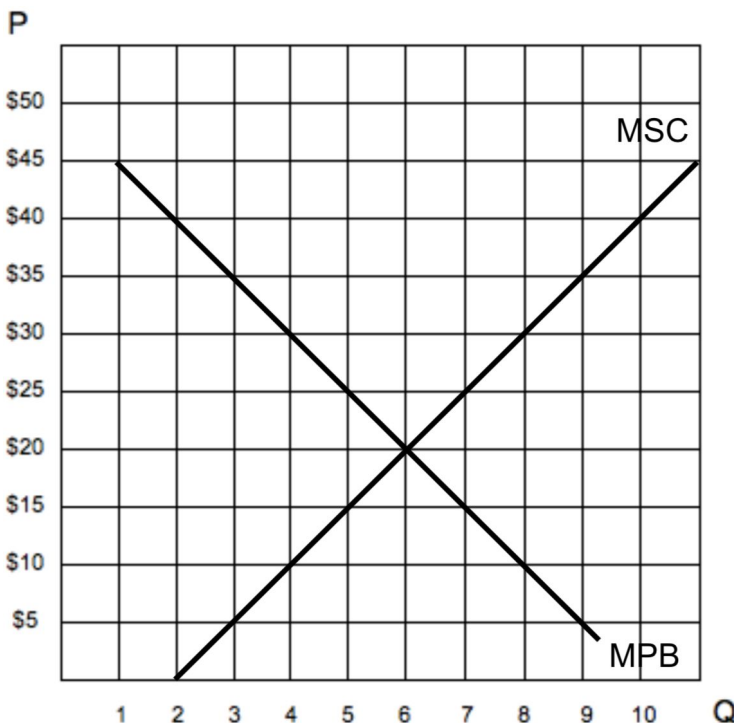
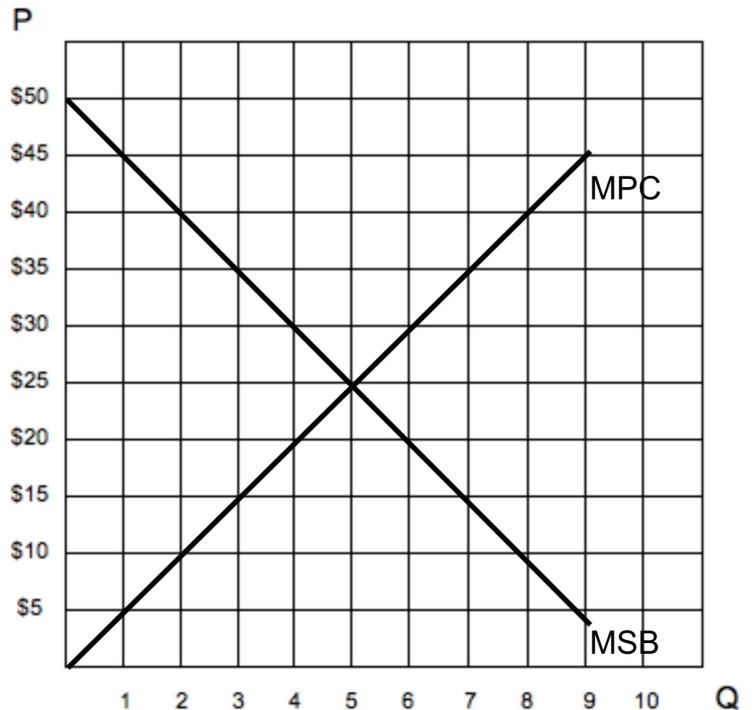


Ultimate Review Packet- Micro Unit 6

Externalities Practice

Part 1: Negative Externalities- Use the graph to the right to answer the questions.

1. Identify the equilibrium price and quantity produced by the unregulated market.
2. Assume that each unit of the good generates \$20 of external costs. Draw a marginal social cost (MSC) curve and identify the socially optimal price and quantity.
3. At the quantity of 5, identify and calculate the area of deadweight loss.
4. Calculate the deadweight loss if the government places a \$20 per unit tax on the good?
5. Assume instead that each unit of the good generates \$30 of external costs. Calculate the deadweight loss if the government maintains the \$20 per unit tax on the good?



Part 2: Positive Externalities- Use the graph to the left to answer the questions.

6. Assume that each unit of the good generates \$20 of external benefits. Draw a marginal social benefit (MSB) curve and identify the socially optimal price and quantity.
7. At the quantity of 6, identify and calculate the area of deadweight loss.
8. Calculate the deadweight loss if the government provides a \$30 per unit subsidy to consumers?
9. Assume instead that the government provides a \$20 per unit subsidy to consumers? Calculate the deadweight loss.