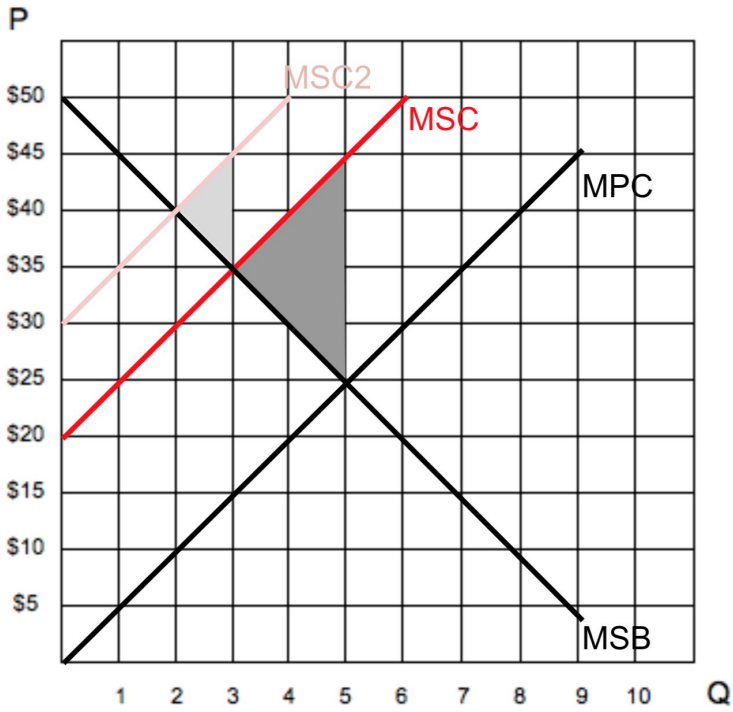
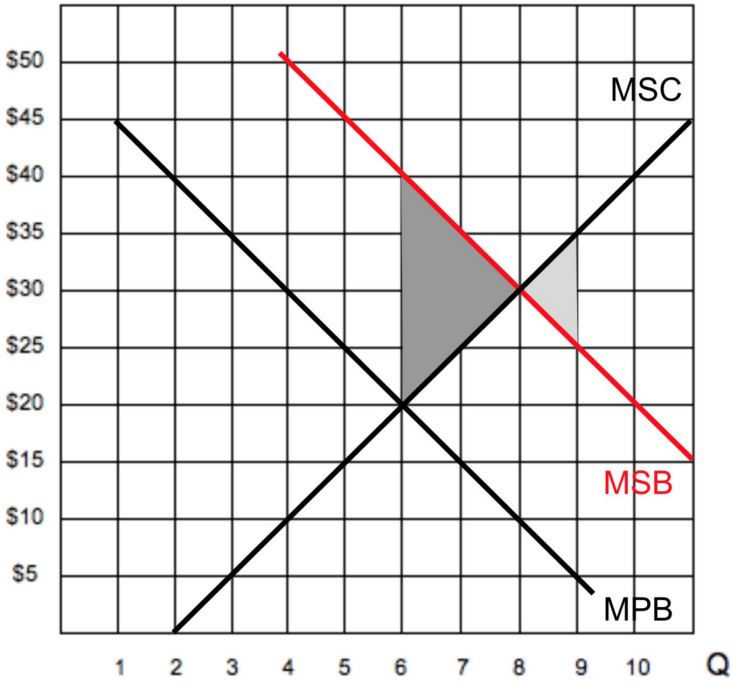
Ultimate Review Packet- Micro Unit 6 Answer Key

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.
Price = $25, Quantity = 5
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.
Price = $35, Quantity = 3
3. At the quantity of 5, identify and calculate the area of deadweight loss.
DWL = $20. Dark grey triangle on graph
4. Calculate the deadweight loss if the government places a $20 per unit tax on the good? DWL = $0. The MPC would shift left. The externality would be remedied
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? DWL = $5. Light grey triangle on graph.The new MSC would be at MSC2 (on graph). The new socially optimal price would be $40 and the quantity would be 2.



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.
Price = $30, Quantity = 8
7. At the quantity of 6, identify and calculate the area of deadweight loss.
DWL = $20. Dark grey triangle on graph
8. Calculate the deadweight loss if the government provides a $30 per unit subsidy to consumers? DWL=$5 (light grey triangle)MPB shifts too far to the right. Too much made.
9. Assume instead that the government provides a $20 per unit subsidy to consumers? Calculate the deadweight loss.
DWL = $0. The externality would be remedied

Video Help: https://goo.gl/UUNVsk