Problem Set #12
Externalities

Tutorial Problems

1. $MWTP(Q) = 40 - 2Q$. $MC(Q) = 10 + Q$. $MEC(Q) = 6$. The equilibrium quantity is _____. The efficient quantity is _____.

   A. 10; 10

   B. 10; 8

   C. 8; 10

   D. 8; 8

   E. None of the above.

2. Assume the production of a chemical imposes a marginal external cost equal to \$3 per unit, while the consumption of this same chemical imposes a marginal external cost equal to \$2 per unit. Which of the following results in the smallest deadweight loss?

   A. A per-unit tax that is large enough to cause quantity transacted to equal 0.

   B. A per-unit tax of \$5 imposed on the seller with no tax imposed on the buyer.

   C. A per-unit tax of \$3 imposed on the seller with no tax imposed on the buyer.

   D. Per-unit taxes of \$2 imposed on the buyer and \$2 imposed on the seller..

   E. No tax imposed on either the buyer or the seller.