

Economics 5250
Spring 2002

Dr. Lozada
Midterm Exam

This exam has 33 points. There are six questions on the exam; you should work all of them. Most of the questions are worth 7 points each, but Questions 4 and 6 probably require briefer answers than the others, and they are only worth 6 points each.

Put your answers to the exam in the blue books you have brought. The figure for the exam appears after the questions.

Answer the questions using as much precision and detail as the time allows. Correct answers which are unsupported by explanations will not be awarded points.

Answer all of the following six questions.

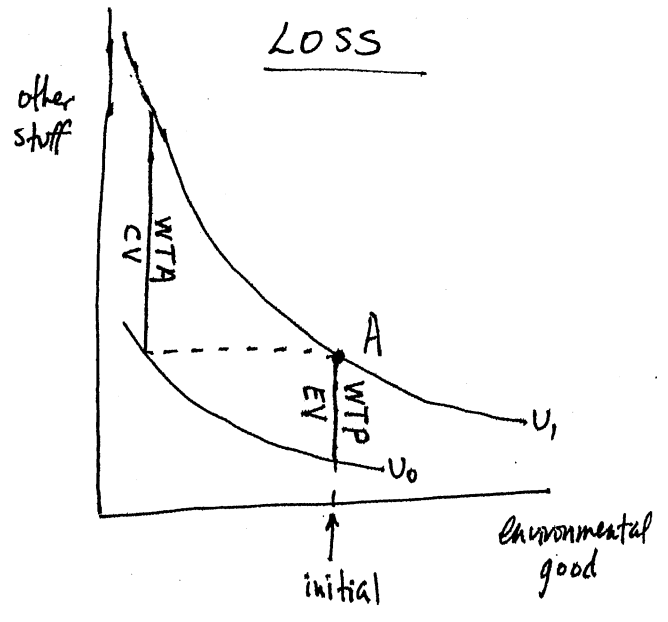
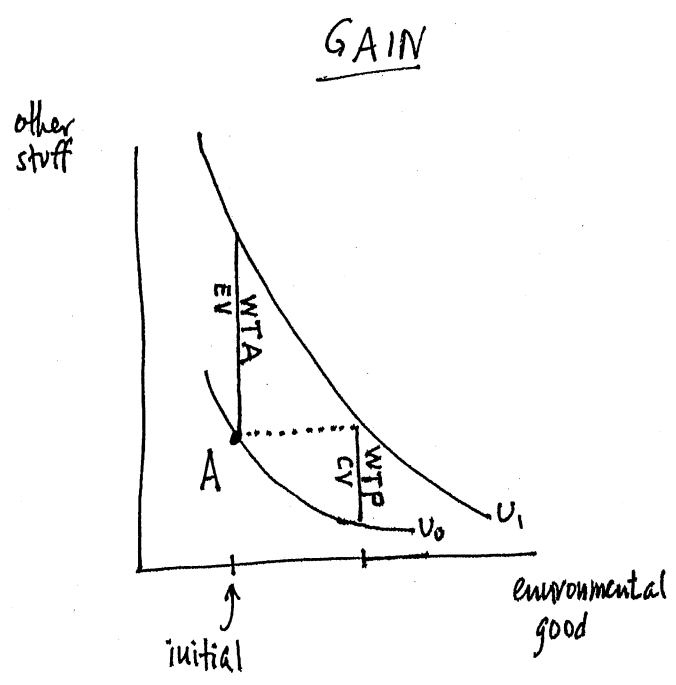
1. [7 points] Contrast the result of Coasian negotiations with:
 - (a) no transactions costs;
 - (b) very high transactions costs paid by pollution sufferers.
2. [7 points] Draw a graph with pollution on the horizontal axis. On this graph draw MEC and MAC and explain what these curve represent and why.

Then, on this graph show a type of tax which would lead to socially optimal pollution yet entail no actual tax payments by firms. (If you can't figure this out, you can get partial credit for merely drawing "a type of tax which would lead to socially optimal pollution.")
3. [7 points] Explain the graphs in Figure 1.
4. [6 points] Contrast current regulatory approaches to CFC's and to greenhouse gases, and explain those contrasts.
5. [7 points] Your book mentions that

... tomorrow's satisfaction matters, not today's assessment of tomorrow's satisfaction. (p. 218)

How does this bear on the relationship between $U_i(C_i, U_j)$ versus $U_i(C_i, C_j)$? Is one of these easier to use from a practical viewpoint than the other (and if so why, and if not, why not)?
6. [6 points] What potential problems might the Deep Ecology school have in adjudicating conflicts?

Figure 1



A: initial point. $U_0 < U_1$. Note: $WTP < WTA$ here.