

Corrections to text

Note that I attach the figures for question sets #1, #2 and #3. They are out of order as stated below, so you can reprint them from here. They appear at the end of this document.

Chapter 3

p. 71, 5th full paragraph: 2nd line replace 'Hence L_1 lawyers' with 'Hence L_0 lawyers'
 p. 74, 3 lines from bottom: replace 'vertical' with 'horizontal'
 p. 76, 3rd full par. 2nd line replace 'labeled S_1 and S_{1+t} with 'labeled S_2 and S_{2+t} '
 figure 3-1 in the text below panel (a), the last line reads ' $A+B+C+D$ '
 it should read ' $A+C+D$ '
 figure 3-1 in the text below panel (b), it reads that surplus is ' $2(A+B)+C+D$ '
 it should read ' $(A+B) + (A+C+D)$ '

p. 67, exercise in box the cost curve should read, $MC = \$100 + \$5q$.
 Also, I should have inserted a footnote to show you how to obtain the solution using a spreadsheet or calculator. If you solve the problem in this way, your answer will differ slightly from mine because you are using discrete whole units, whereas I treat units as infinitely divisible. Notably, at output 20, ATC in the spreadsheet solution is a bit higher than MC. Don't worry about this approximation error.

Quantity	MC	TVC	AVC	AFC	ATC
1	105	105	105	1000.0	1105.0
2	110	215	107.5	500.0	607.5
3	115	330	110	333.3	443.3
16	180	2280	142.5	62.5	205.0
19	195	2850	150	52.6	202.6
20	200	3050	152.5	50.0	202.5
21	205	3255	155	47.6	202.6
22	210	3465	157.5	45.5	203.0

Chapter 4

P. 98, 3rd full para. 5th line replace 'other workers willing to work for more than \$5 but less than \$7' with 'other unemployed workers willing to work for \$5.'

p. 99, 3rd line should read: 'workers; that is, **7 million** individuals'
 figure 4-5 text top 3rd line should read 'In the extreme, all the **high**-rent workers'

Chapter 5

p. 113 2nd full para. second to last line should read '8th unit'

p. 117 box, 1st line should read 'an excise tax to maximize *tax* revenues'

Chapter 6

- p. 136 2nd full para. delete second line sentence starting “I will return....”
- p. 136 4th full para. 1st sentence, delete “I will show in chapter 6 that”
- p. 138 box 2nd para. replace “Fireworks shown at ground level inside a stadium satisfies the first principle, but not the second because” with “Fireworks shown at ground level inside a stadium satisfies the first **two** principles, but not the **third** because”
- p. 141 there is mention of five innovations delivered in several spots; it should be four; last sentence on page should read \$400, not \$500.
- p. 141 3rd para. The cost should be \$25 and not \$20.
- p. 142 1st line should be area I, not area E.
- figure 6-4 In the text box, I refer to area B; it should refer to area E

Chapter 9

- p. 205 1st full para. 4th line ‘are not priced’ should be ‘are priced’
- p. 209 last para. next to last sentence, the welfare gain is **E** + F, not D+F.

Chapter 10

- p. 236 2nd box Answer should read C+E
- figure 10-2 The area under the demand for quiet between 40 and 100 should be labeled C; the area above the demand curve over the same range, but below T_{Pigou} , should be labeled E.

Problems Sets

Mix up in the order of figures

Figures for problem set #1 are located after problem set #3; figures for problem set #3 are found after problem set #1. In addition, re the figures for set #3 one has the title: 'Question Set #2: Figure 2 The Market for Wheat'. It should read 'Question Set #3: Figure 2 The Market for Wheat'

Question Set #1

Question 14. The answer 'e' is incorrect. The correct answer is 'd'.

Question 25. The answer 'c' is incorrect. The move from C to A is the pure price effect when there is a price decrease. The question refers to a price *increase*, in which case you drag the new budget line labeled B_1 to the right until it is tangent to U_2 . Hence, a better guess is that the price effect would be depicted by something like B to F. But the chart is not very well drawn to show that. The correct answer is 'e', but don't worry if you got it wrong.

Question 28. The correct answer is 'b'. *If I had omitted the word 'price' in the question, then 'd' would have been correct.*

Question Set #2

Clair has no corrections to this set. He does, however, note that in figure 1, panel a, the label ATC should be moved closer to the u-shaped curve.

Question Set #3

Figure 2 The letter 'h' is mis-placed. It should be further to the left so that it corresponds to the quantity where demand intersects supply.

Question 6 The correct answer is e. You cannot get deadweight loss unless I give the supply conditions, which I do not.

Question 14 Insert 'domestic' as the first word in option d)

Question 19 the word 'one' in option f) should be 'none'

Question 23 option 'i' should include B

Question 24 in the question, insert the word 'net' before gain, so it reads, 'The **net** gain to farmers'

Question 26 it would be clearer had I specified that the supply curve represented the long term supply curve facing this industry.

Question Set #4

Question 7 The correct answer is c. Note that the question asks about surplus in periods 2 and 3, and so you do not count the R&D costs from period 1

Question 19 The questions should reference question 18, not 2f

Question Set #5

The following language needs to be inserted before question 3: “A second idea is to use an ‘efficiency wage.’ In this system, there is no pension. All the pay is in the form of cash wages. Officers are paid \$25,000 per year *plus* another \$5,000 each year as an incentive to value their continued employ on the job. A queue will form for these jobs, but suppose that the lucky hires are chosen by lottery. You are careful to choose only those officers whose opportunity wage is \$25,000.”

Question 3: the answer is ‘d’ not ‘e’.

Practice Question Set #6

This problem set is missing the first page, at least for many students. Here is page one in its entirety:

Externalities and the Coase Theorem (and more signaling)A pollution question

Suppose that a company emits pollution. Homeowners attach value to abating the pollution. Right now zero abatement occurs. Call the number of units of pollution abated, A . Assume that the marginal value, MV , attached to attaining higher abatement levels is described by the following demand schedule: $MV = 100 - A$. Assume that the marginal cost, MC , incurred by the company to supply more units of abatement is 2; that is, $MC = 50$. Assume that there is nothing that homeowners themselves can do to reduce the impact of pollution.

1. The optimal amount of pollution abated is A^* . The value of A^* is:
 - a. 0
 - b. 10
 - c. 20
 - d. 50
 - e. 100

2. As compared to zero abatement, the social gain from incurring A^* units of abatement is:
 - a. \$1,250
 - b. \$2,500
 - c. \$5,000
 - d. \$10,000
 - e. \$0

3. In the optimal solution, homeowners would be willing to pay the following amount to get rid of all the remaining pollution:
 - a. \$1,250
 - b. \$2,500
 - c. \$5,000
 - d. \$10,000
 - e. \$0

4. Suppose that the government decides to prohibit all pollution. Compared to the current solution of zero pollution abatement, the social gain of this zero-tolerance policy is:

- a. \$1,250
- b. \$2,500
- c. \$5,000
- d. \$10,000
- e. \$0

5. Suppose that instead of regulating a zero tolerance policy, that the government decides it might just as well raise some revenue while reducing pollution. So it enacts a pollution tax equal to \$100 per unit of pollution emitted. It expects tax revenues of:

- a. \$1,250
- b. \$2,500
- c. \$5,000
- d. \$10,000
- e. \$0

Clair suggested that I reword some other questions in this set, and so I re-list a few questions at the end with some attempt to reduce confusion.

20. The Coase Theorem says that in the absence of transaction costs:

- a. if the property rights to the wealth of 237 students are arbitrarily awarded to the student sitting in the 8th row, 5th seat in from the right then we know that wealth will redistribute to the original owners
- b. as long as property rights to purchase a product with a binding maximum price are well defined then a queue should not exist
- c. as long as property rights are well defined then airport noise and toxic emissions will be zero
- d. a and b
- e. all of the above
- f. none of the above

21. The Coase Theorem says that in the absence of transaction costs, if property rights are well defined then
- a. those causing pollution and those negatively impacted by it will always share in the cost of the solution
 - b. that the wealthier people should pay for damages
 - c. that any observed level of externalities will be socially optimal
 - d. equity issues will dominate efficiency issues in all transactions
 - e. it never is optimal to have zero pollution
 - f. a and e
 - g. none of the above
22. The Coase Theorem suggests that if property rights are awarded to jobs and products affected by some intervention, then assuming that transaction costs are zero, then
- a. a minimum wage policy would be more efficient than it was before
 - b. a minimum wage policy would be less efficient than it was before
 - c. a price ceiling will be less efficient than it was before
 - d. a price ceiling will be more efficient than it was before
 - e. nothing will happen since all social policies already will be optimal
 - f. all of the above
 - g. a and d
 - h. b and c
 - i. none of the above
23. The social cost of reducing pollution can often be lower if:
- a. we allow trading of pollution permits
 - b. we allow producers to gradually reduce pollution over time
 - c. those affected by pollution do some things to reduce the impact of pollution
 - d. people less bothered by the pollution buy homes from those more bothered
 - e. a and c
 - f. a and b and c
 - g. all of the above
24. We could think of a tax policy that discriminated among taxpayers to pay for national defense, whereby those with most to lose from a foreign invasion pay more than those with less to lose. This scheme shares some of the same features as
- a. the milk monopoly price discrimination solution
 - b. the perfect discrimination solution for a patent monopolist
 - c. the movie theatre matinee and evening pricing differences
 - d. phone bills that are confusing
 - e. a classic signaling and sorting problem
 - f. none of the above

Corrections to Figures as Noted

As of October 2, 2001

Students who have other corrections should email them to Clair. He and I will periodically meet to add to the following list. In the meantime, I will periodically update these figures as I re-read the text.

Question Set #1: Figure 2: A Change in the Price of Gasoline

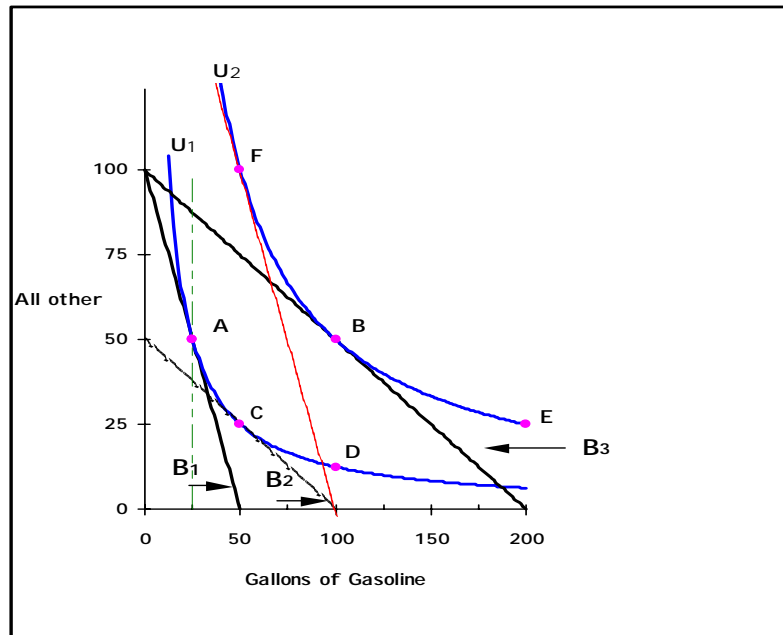
Question Set #2: Figure 1: Depiction of Some Market

Question Set #3: Figure 1: The Minimum Wage: First Round Effect

Question Set #3: Figure 2: The Market for Wheat

Question Set #1: Figure 2

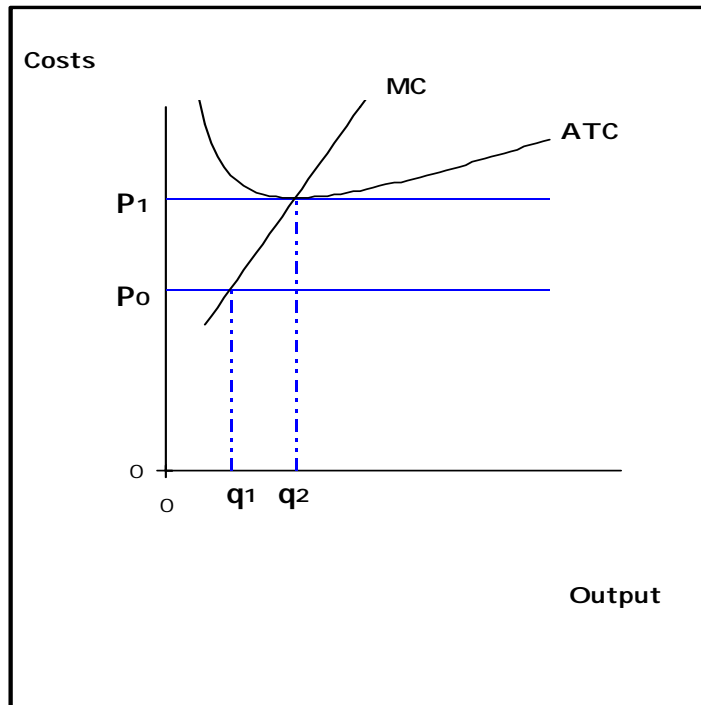
A Change in The Price of Gasoline



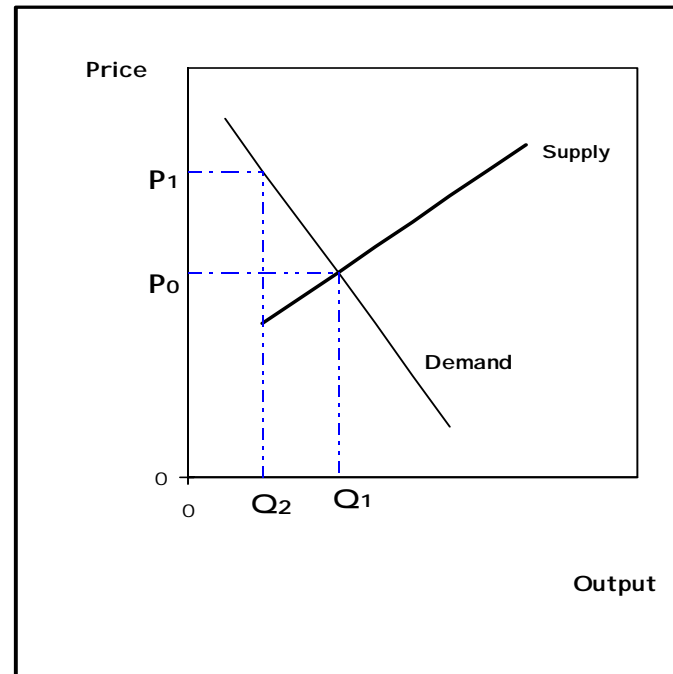
Question Set #2: Figure 1

Depiction of Some Market

(a) One Firm

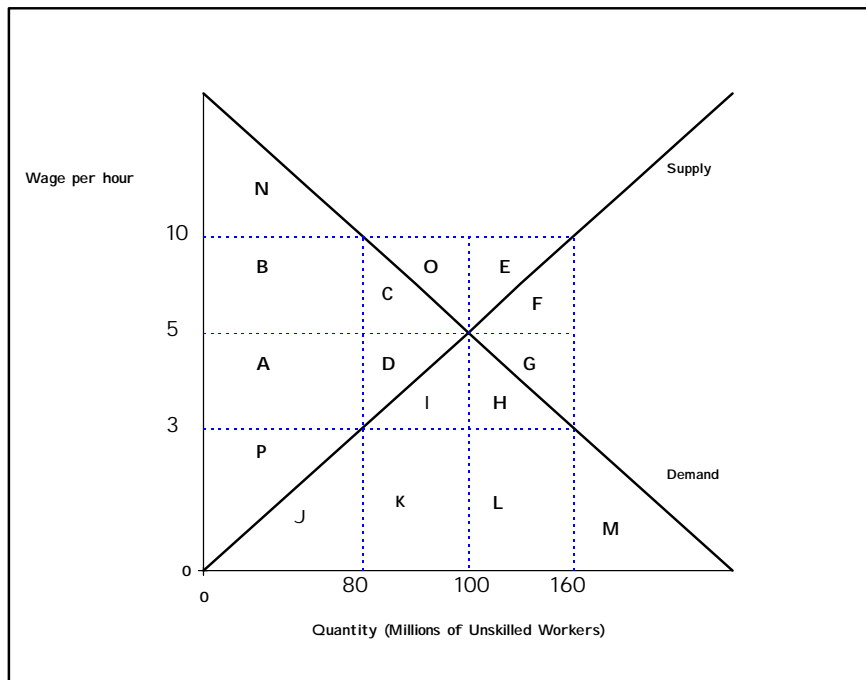


(b) Market



Question Set #3: Figure 1

The Minimum Wage: First Round Effect



Question Set #3: Figure 2

The Market for Wheat

