

Econ 350 Short Answer Midterm Example

1) List the four (4) key features of externalities.

- 1) Externalities can be produced by both individuals + firms.
- 2) Externalities are reciprocal in nature.
- 3) Externalities can be positive or negative
- 4) Public goods + externalities can be similar.

Econ 350 Long Answer Midterm Example

1) Geutenberg likes to barbeque, but his neighbour doesn't like the smell of roast perlunkervalken. From the curves listed below, calculate Geutenberg and society's ideal barbeque amount (in days per month), and the net benefit from moving to society's idea. (Include graphs) List 3 ways this move could occur.

$$\begin{aligned} \text{PMC} &= 3Q \\ \text{MD} &= Q \\ \text{MB} &= 100 - Q \end{aligned}$$

ECON 350 - MT L.A. Example

L. P. Semaza

① INDIVIDUAL

$$MB = PMC$$

$$100 - Q = 3Q$$

$$100 = 4Q$$

$$25 = Q_I$$

$$P = 100 - Q$$

$$P = 100 - 25$$

$$P_I = 75$$

Society

$$MB = SMC$$

$$= PMC + MD$$

$$100 - Q = 4Q$$

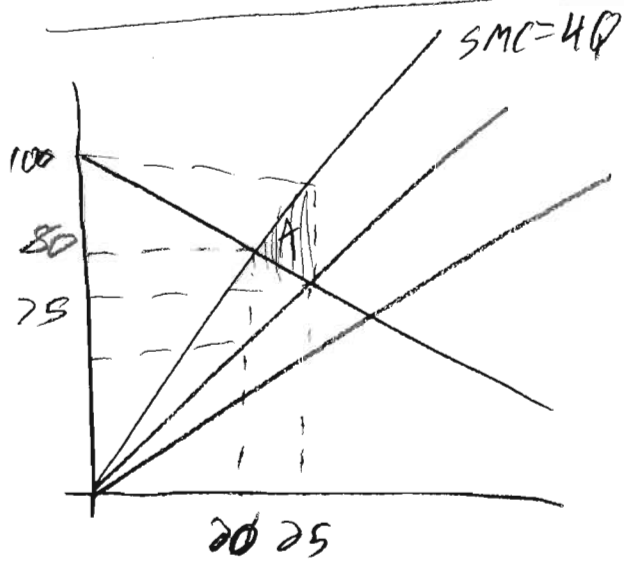
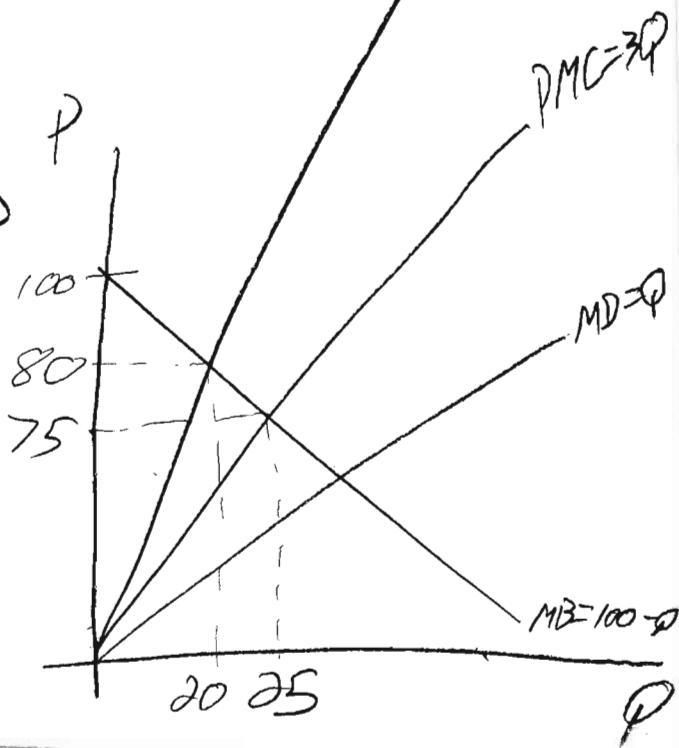
$$100 = 5Q$$

$$20 = Q_S$$

$$P = 100 - Q_S$$

$$= 100 - 20$$

$$P_S = 80$$



Net benefit = Area "A"

$$SMC(25) = 4Q = 4(25) = 100$$

$$A = \frac{1}{2}abh$$

$$= \frac{1}{2}(100 - 75)(25 - 20)$$

$$= \frac{1}{2}(25)(5)$$

$$= 62.5$$

→ Net benefit to society from moving from Q_I to Q_S .

3 Methods: ① Assign outdoor property rights (to neighbour or Gentlemenburg.)

② BBQ permits (permits to BBQ)

③ Government regulation (ie: 20 BBQ/month law)