

Exam II
(100 points)

- (15 pts) 1. Why did the Northern Colorado Water Conservancy District (NCD) evolve into the host of an active and socially productive water market?
- (15 pts) 2. Define the terms *secondary economic effect* and *accounting stance*, and discuss any noteworthy interactions of these two concepts.
- (15 pts) 3. What is the purpose of cost-benefit analysis and what role(s) can it play in the formulation of improved water policy?
- (25 pts) 4. Though her own production activities, water user G has been maximizing utilization of her 50 units of water rights, because no other options have been available. Now, after a recent institutional revision allowing water right transferability, user M has approached G with an offer to lease as much as G can offer at \$100 per unit. Show what G should do with the assistance of a graphic, and indicate how you could calculate G's net gains from this action (if she does anything different). Include attention to your graphics (and other tools as appropriate) in your discussion.
- (30 pts) 5. Describe the 3 nonaccounting opportunity costs that might enter rates and the 3 primary pricing tools. If prices are optimally established, which of the opportunity costs might affect which of the pricing tools and how/why?