

Final Exam
(100 points)

- (5 pts) 1. From the textbook: "In a policy context, decisions often must be made where someone is made worse off while someone else is made better off." What's the significance of this statement for the manner(s) in which policies are analyzed?
- (10 pts) 2. What is path dependence in welfare measurement? Why is it unfortunate? When does it occur? What can be done about it?
- (15 pts) 3. Define "externality" and provide "big picture" (thoughtful and complete) information about the economic significance of this term. [Economic "significance" is not the same as everything you know about externalities.]
- (15 pts) 4. Discuss and graphically illustrate the technique for measuring the impact of an input price fall in a single firm's output market (i.e. in y - p_y space for a p_x fall). When is this technique not appropriate? Provide a complete mathematical statement in integral form ($\int \dots$) for the requested and illustrated welfare measure.
- (25 pts) 5. The government is considering a proposal to subsidize the distribution of an antidisease drug throughout the nation. This drug protects a person from contracting a specific communicable disease for 2 years. The only way for a person to obtain this protection is to get an injection at a doctor's office. This drug has been distributed for several years now, and production/cost data and demand information is readily available. Demand sensitivity to doctors' injection charges has been well studied.

The subsidy proposal is for the government to cover 50% of the injection charge, as currently priced in doctors' offices. Your task is to help a governmental panel develop a recommendation concerning this subsidy for interested legislators.

- a. Explain the policy analysis you would like to conduct for this proposal. The panel is well versed in economics, so include the helpful technical details. Point out noteworthy elements of your forthcoming work.
- b. Can you visualize a likely recommendation from your analysis? Why or why not?

The last question is on the next page.

- (30 pts) 6. For her dissertation work a student has carefully analyzed the demand for recreational fishing. She has determined that the average fisher has the following Marshallian demand for fishing:

$$f = \frac{m}{2p}.$$

f is the number of fish caught on a weekend. m is thousand \$ of annual income, averaging \$60 thousand per fisher. p is the price per caught fish. [Although a market does not exist for f , the Ph.D. student has applied an interview methodology to get fishers to reveal their actual demand responses. The methodology is 100% accurate.]

A Judge has previously ruled that (1) every fisher has the right to take 20 fish per weekend but no more than that, and (2) every fisher must always pay 50 cents per caught fish to the state agency that stocks rivers with fish. Enforcement of these rules is perfect and costless.

- a. The Environmental Group prefers a lower per person catch than 20 fish per weekend. Based on the available information, how much would The Group have to exactly compensate the average fisher to lower the number of caught fish to 10 per weekend? The \$0.50 price will still apply for the 10 fish.