

Final Exam
(100 points)

- (10 pts) 1. Can you envision a realistic situation in which CS, compensating surplus, might be the best choice of available welfare measures? Identify a best-case, close-to-real-world scenario for the use of CS. Explain why or why not CS might be preferred over specific, competing welfare measures in the circumstances of this scenario.
- (14 pts) 2. Welfare economics is classically defined as the same thing as normative economics and as the same thing as community economics. In your opinion, what two messages might we extract from these simultaneous equivalences. Explain both of your messages and their origins in the above definitions.
- (14 pts) 3. During the contemporary debate about health care access and funding for health care, health care is sometimes referred to as a public good. As an economist commencing work on this issue, do you regard this as a correct label for health care output in your opinion? Clearly explain your thinking on this matter and why you draw your conclusions(s). What are the consequences of your answer for health care policy?
- (14 pts) 4. Discuss and graphically illustrate the technique for measuring the impact of an output price fall in one of a single firm's input markets (i.e. in x - p_x space for a p_y fall). When is this technique appropriate? Provide a complete mathematical statement in integral form ($\int \dots$) for the requested and illustrated welfare measure.
- (16 pts) 5. One of the key components of benefit cost analysis is discounting. Some critics argue that discounting is socially harsh, because distantly future benefits and costs will receive very low weights in current decisions. Your response?

Question 6 is on the back page.

- (32 pts) 6. A professor is thinking about writing a textbook in a subject area where no text is available. Because of the narrow field, no publisher will agree to publish the book. If she writes it, she will have to publish it herself, and she anticipates a 500-page book costing \$25 per copy to print (printing costs only).

The professor wonders whether it will be worthwhile to write the text. She has decided to undertake this project if the monetary value of the text to her students is "large enough." No market data indicating the value of such a text is available, because no text exists. Because you are the top student in his class, she has insisted that you perform the needed analysis.

After interviewing some representative students, you determine that an average student benefiting from this book would behave as if he/she has the following utility function:

$$U = 5t^{0.2}d^{0.8},$$

where t is the number of different textbooks in this field possessed by the student and d is the number of compact discs the student purchases. Assume that a compact disc costs \$10 and that the average student has a \$100 budget for music and this text. Although there are no texts currently available in this area, you have decided that the notes the professor hands out to students for free are equivalent to 0.1 textbooks.

Assuming that students will only have to pay printing costs, which they gladly will, what is the prospective net value of this text to students if there are 6 students this semester and 6 next year and 6 the following year and ...? What advice will you give to the professor and why?