

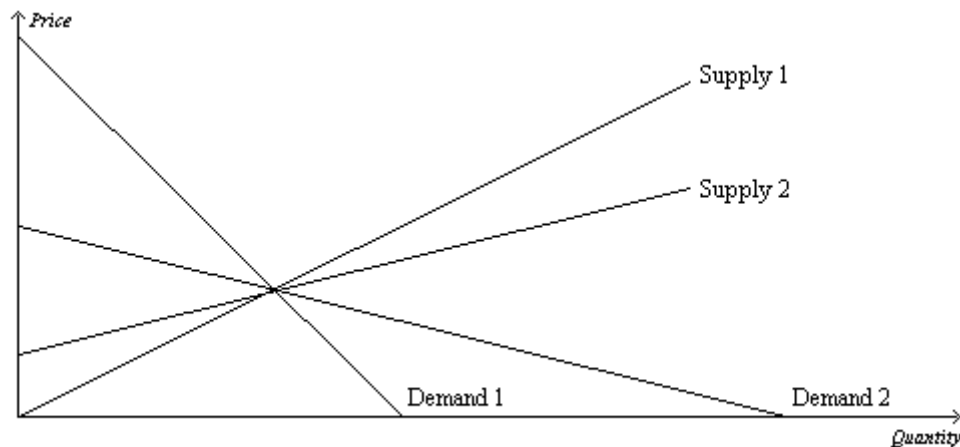
EC155a: Problem set #3

Due on Monday, November 13 by 5:00 PM at Professor Isham's office

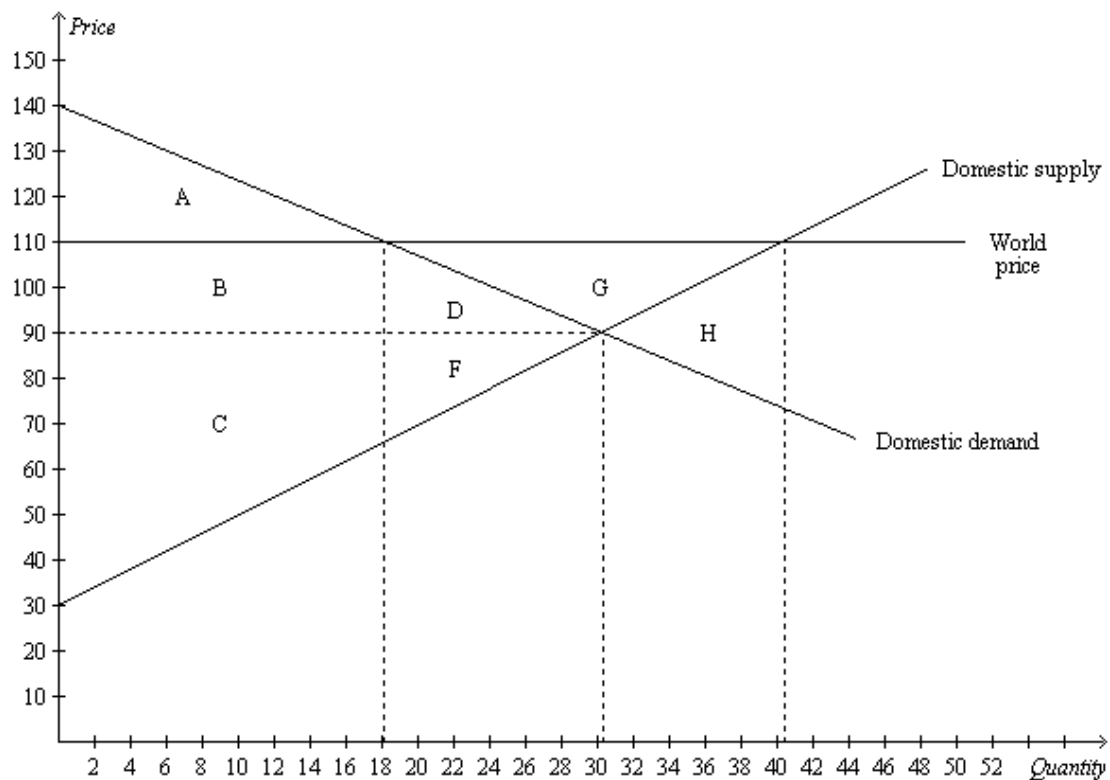
1. You have an extra ticket to Hamilton, still the hottest ticket on Broadway this year. The table below shows the willingness to pay of four potential buyers in the market for a ticket to see the show.

Buyer	Willingness to Pay
Julia	\$500
Richard	\$400
Lamar	\$350
Analise	\$300

- a. You hold an auction to sell the ticket. Who makes the winning bid, and what does (s)he offer to pay for the ticket? Justify your answer.
- b. Now imagine that you have two tickets for the show: in this case, how much will you sell the tickets for? Will any of the buyers have a consumer surplus after the sale? If so, how much? Will you have a producer surplus after the sale? Justify your answers.



2. Refer to the figure above: which pair - one demand curve and one supply curve - will minimize the deadweight loss from a tax? Which pair - one demand curve and one supply curve - will maximize the deadweight loss from a tax? Justify and illustrate your answers. What general conclusions, if any, can we reach about elasticities and the size of a deadweight loss after a tax?
3. Explain and illustrate why tax revenue rises and then falls as the size of a tax increases. Under what conditions would a country want to increase its tax rates? Lower its rates? Justify your answers.
4. Using a graphical model (with two graphs), illustrate how trade increases the social welfare in for two countries that begin to trade, one with a comparative advantage in good A and the other in good B. Under what conditions, if any, should a country impose a tariff on a good that it imports? Justify your answers.



5. The figure above illustrates the market for coffee in Guatemala. Calculate the exact size of social welfare for Guatemala if it does not trade? By how much will social welfare increase if it begins to trade?
6. Should President Obama and President Trump have supported the Trans-Pacific Partnership (TPP) Free Trade Agreement? Why or why not? Justify your answer with two citations.
7. If a country imposes a pollution tax on the production of steel such that it reduces the equilibrium quantity in this market, how can one be sure that the tax maximizes social welfare? Justify your answer.
8. Identify and describe a setting where the Coase theorem is relevant in the lives of Middlebury students. How and under what conditions would a Coasian trade improve social welfare of students? Under what conditions would a Coasian trade be unlikely to improve social welfare of students? Justify your answers.
9. Identify and describe a public good *or* a common property resource at Middlebury that affects the lives of students. How and under what conditions is this good used sub-optimally? What policy do you propose to move toward a more optimal use of this good, and why is your policy better than an alternative?