

Date: 05/07/2021 **Time: 2:30 pm-3:30pm**
C.U. Undergraduate Intermediate Examination, 2021
Internal Assessment
Environmental Economics
Semester VI/DSE 6B
Full Marks-10

Answer any four questions: 4*1

1. In the presence of an negative externality, a specific tax can achieve the social optimum because
 - A) it internalizes the external cost.
 - B) the price of the good rises by the full amount of the tax.
 - C) output is reduced to zero as a result.
 - D) it directly charges the producer for polluting.

2. Which of the following statements about private and social costs is TRUE?
 - A) private cost do not include externalities.
 - B) Social costs exclude externalities.
 - C) Social costs are never smaller than private costs.
 - D) All of the above.

3. If the social marginal cost of a good is very high relative to the private marginal cost, then a monopoly will most likely
 - A) produce more than the social optimum.
 - B) produce zero pollution.
 - C) produce the social optimum.
 - D) produce less than the social optimum.

4. Carbon dioxide emissions from fossil fuels
 - A) comprise more than one-half of carbon dioxide in the air and water.
 - B) have increased substantially in the last 200 years.
 - C) have reduced the temperature of the earth in the last few decades.
 - D) all of the above are correct

5. Suppose two neighbors share a park. One neighbor, Al, leaves trash in the park. This bothers the other neighbor, Bert. According to Coase's theorem, one necessary condition to alleviate the externality is that
 - A) Either Al or Bert owns the park.
 - B) Bert has the right to a clean park and Al cannot leave trash.
 - C) Al has the right to leave trash and Bert cannot do anything about it.
 - D) Al is fined by the government.

Answer any two questions: 3*2

1. Differentiate between the concepts 'willingness to pay (WTP)' and 'willingness to accept compensation (WTAC).
2. How is Pigouvian tax subsidy used to resolve the problems of externalities?

3. Consider a market for “widgets”, which is characterized by perfect competition; the market demand curve is given by, $P^D = 500 - 5 \cdot Q^D$, and the market supply curve by, $P^S = 100 + 5 \cdot Q^U$. Widget-production causes a damages to outside parties (household and firms); total damages depend on output (Q) of widgets according to, $D = 100 \cdot Q$. What is the marginal private cost of producing widgets? What is the marginal social cost? Explain the difference.

Click the given link to upload your answer scripts:

<https://forms.gle/5y5cE4B3Ttw1X8w7>