

1. The slope of the budget constraint is minus:
 - A) the difference between the prices of the goods.
 - B) the sum of the prices of the goods.
 - C) the ratio of the prices of the goods.
 - D) the product of the prices of the goods.
 - E) none of the above.

2. An empirical researcher identifies the effect of drug use on high school dropout rates by examining how the two variables changed over the 1980s and 1990s. Which empirical approach could this best be characterized as?
 - A) time series analysis
 - B) cross-sectional regression analysis
 - C) structural modeling
 - D) quasi-experiment
 - E) random trial

3. Which of the following is a conclusion of using the generational accounting measure?
 - A) Males born in 1998 are projected to pay less in taxes than they will receive in benefits from the government.
 - B) Males born in 1998 are project to pay more in taxes than they will receive in benefits from the government.
 - C) Males over the age of 60 are projected to pay more in taxes than they will receive in benefits from the government over their lifetime.
 - D) Both a and c are correct.
 - E) Both b and c are correct.

4. In private equilibrium, a positive production externality will lead to _____; a negative consumption externality will lead to _____.
 - A) the socially efficient amount of production; “too much” consumption
 - B) underproduction; “too little” consumption
 - C) overproduction; “too little” consumption
 - D) underproduction; “too much” consumption
 - E) overproduction; “too much” consumption

5. An implication of Part I of the Coase Theorem is that in the presence of externalities, government:
- A) should primarily establish property rights to prevent market failure.
 - B) should primarily use taxes to prevent market failure.
 - C) should primarily use subsidies to prevent market failure.
 - D) can do nothing to prevent market failure.
 - E) can prevent market failure by using quantity controls.
6. Which of the following does **not** imply that smoking causes a negative externality?
- A) The health costs of the uninsured are passed on to others.
 - B) Secondhand smoke has serious effects not considered when smokers decide to smoke.
 - C) Fire damages non-smokers' property.
 - D) Smoking deaths reduce high health costs near the end of life.
 - E) None of the above is correct.
7. What property must a good satisfy to be a pure public good?
- A) non-rival in consumption
 - B) rival in consumption
 - C) non-excludable
 - D) both a and c
 - E) both b and c
8. Which of the following factors is likely to enable private market forces to provide more of a public good than it might otherwise provide?
- A) large differences among individuals in their demand for the public good
 - B) little to no difference among individuals in their demand for the public good
 - C) altruism
 - D) both a and c
 - E) both b and c
9. Suppose that you estimate the value of life by comparing the earnings and probabilities of death from working on a fishing boat in Alaska to the earnings and probabilities of death from working in a fish processing plant in Alaska. You find that a year of life is valued at \$6 million. If risk-loving people take the jobs on the boats and risk-averse people take jobs at the processing plants, then what will be true of your estimate?
- A) It will overstate by at least two times the value of a life for the average person.
 - B) It will overstate by an unknown amount the value of a life for the average person.
 - C) It will be approximately equal to the value of a life for the average person.
 - D) It will understate by an unknown amount the value of a life for the average person.
 - E) It will understate by at least two times the value of a life for the average person.

10. Which of the following is true of median voter outcomes?
- A) They are always socially efficient.
 - B) They are never socially efficient.
 - C) They reflect the intensity of voters' preferences.
 - D) Both a and c are correct.
 - E) None of the above are correct.
11. The average weight of American adults increased by about 10 pounds in the 1990s. In November of 2004, it was reported that U.S. airlines spent \$275 million more in fuel costs to transport this additional weight. Under what circumstances would this increased cost be an externality of obesity, and under what circumstances would it not be an externality?
12. Roads are typically viewed as a public good. However, some highways are financed by tolls levied on drivers instead of through taxes. Discuss why this model works for some roads and not others in terms of the properties of public goods.