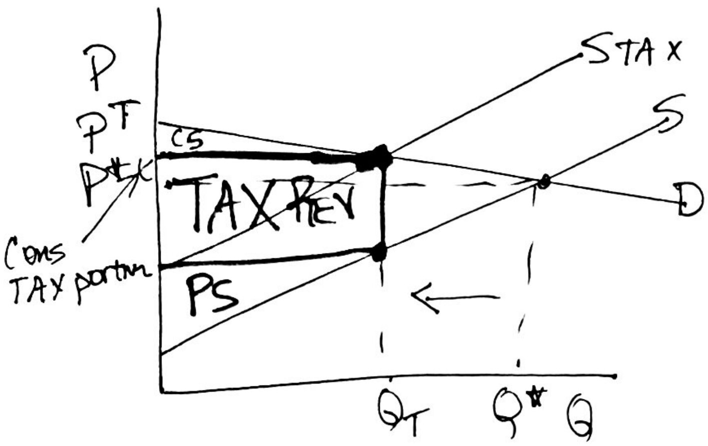
NAME OCT 26 SOLUTION SET

ECONOMICS 101 IN-CLASS ACTIVITY FALL 2017 – 10 MINUTES
PLEASE COMPLETE THIS ACTIVITY ON YOUR OWN.

QUESTION 1

A pollution and anti-consumption tax (e.g. a tax on a firm that is paid on a per unit basis) is placed upon all clothing manufacturing firms. Using a set of well labelled graphs, demonstrate the before and after-tax situation in the market and be sure to explain what exactly the tax is doing. Clothing is considered very elastic in terms of price elasticity of demand.



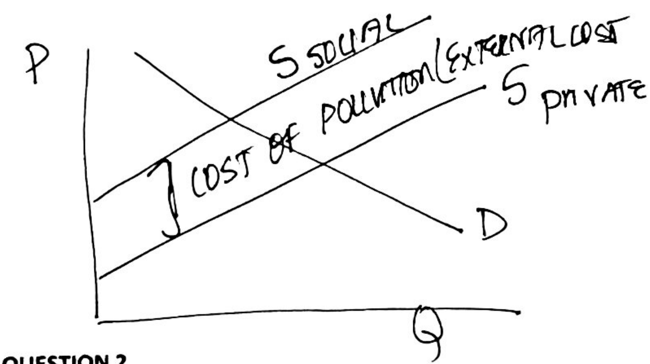
ELASTIC ⇒ VERY RESPONSIVE TO PRICE CHANGE
AS P↑ (DUE TO TAX), QD↓ LARGER THAN PΔ. + RESULT THAT GOV'T WANTS WILL OCCUR + COLLECT >TAX

- S ⇒ STAX - DUE TO ↑TAX
- Q↓ TO QT + P↑ P* TO PT
- ELASTICITY ⇒ SELLER PAY>TAX

QUESTION 2

Use the above scenario and explain the concept of externalities. Be sure to define the term, not the type of externality and use well-labelled graphs in your explanation as to what is happening in the industry.

EXTERNALITY - COST ARISING FROM PROD'N OF CLOTHES SUCH AS POLLUTION FALL ON SOMEONE OTHER THAN PERSON BUYING CLOTHES + FIRM PRODUCING CLOTHES.



ALL COSTS NOT INCLUDED IN MC CURVE OF FIRM.
- MISSING POLLUTION COST (EXTERNAL)

∴ IF TRUE COST OF CLOTHING PROD'N INCL IN S THEN ↓Q, ↑P + >efficiency

QUESTION 2

The government is determined to reduce clothing purchases by consumers. Describe two other **economic policies** that could be used (other than a tax).

- PROPERTY RIGHTS (ON PEOPLE)
- QUOTA
- PRICE CONTROL (SET VERY HIGH)
- REGULATE : EX 100/mth max clothing consumption or production.
- RULES : ABATEMENT TECH

DESCRIBE