

1. Provide an example of each in the real world (from table 10.2). That is, if I put Distributional Issue, transfer of scarcity rent under supply side output tax, a real world example would be government taxing private sector oil producers for the right to drill in the government's territory.

Generic Policy	Perceived Problem	Real World Example
Supply Side Tax		
Output Tax	Market failure: negative externality	
Tariff	Limit to competitive framework: market power of foreign exporters	
Supply Side Subsidy		
Matching Grant	Market failure: public goods	
Tax expenditure	Market failure: positive externalities	
Demand Side Tax		
Commodity Tax / User fee	Market failure: negative externalities	
Demand Side Subsidy		
In kind subsidy	Distributional issues: floor on consumption	
Voucher	Government failure: bureaucratic supply failure	
Tax Expenditure	Market failure: positive externalities	

2). Transfers to consumers, income is Y , goods are X_1 and X_2 , prices are P_1 and P_2 .

a. Using indifference curves and a budget line, draw the impact of a matching grant of size S per unit of X_1 purchased by the consumer.

b. Using indifference curves and a budget line, draw the impact of a lump sum constrained transfer of size L to a consumer that can only be used to buy good X_1 .

c. Discuss what happened to consumption of X_2 and why it happened in your graphs for (a) and (b).

3) Subsidy and Tax.

a) Draw the impact of a specific tax of size τ placed on consumers and provide a real world case where this might be a good policy to implement.

a) Draw the impact of a subsidy of size τ given to consumers and provide a real world case where this might be a good policy to implement.

4. Provide an example of each in the real world (from table 10.4). That is, if I put Market Failure, Natural Monopoly under government corporation, you could put airports in the NYC metropolitan area being run by the Port Authority.

Generic Policy	Perceived Problem	Real World Example
Direct Supply		
Bureaus	Market failure: Public good	
Independent Agencies		
Government Corporations	Market failure: positive externalities	
Special Districts	Market Failure: Local Public Goods	
Contracting Out		
Direct Contracting	Market Failure: Local public good	
Indirect Contracting / nonprofits	Government Failure: Bureaucratic Supply Failure	