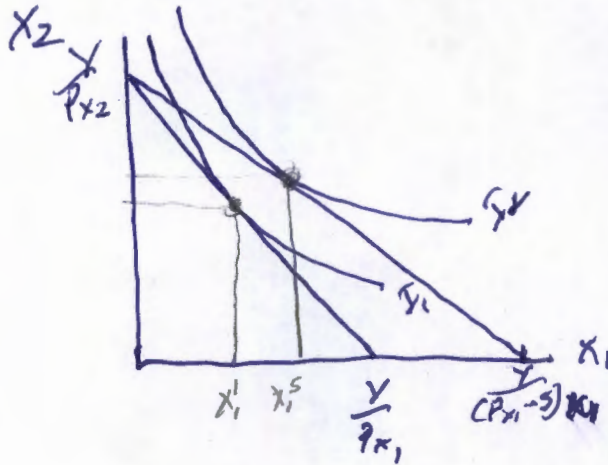


1. Provide an example of each in the real world (from table 10.2). That is, if I put Distributional Issue, transfer of scarcity rent under supply side output tax, a real world example would be government taxing private sector oil producers for the right to drill in the government's territory.

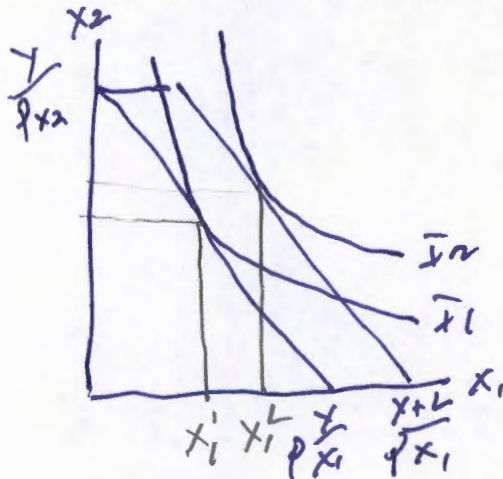
Generic Policy	Perceived Problem	Real World Example
Supply Side Tax		
Output Tax	Market failure: negative externality	Environmental damage from burning coal emitting SO_2 .
Tariff	Limit to competitive framework: market power of foreign exporters	Labor laws allow workers to be paid wages lower than can be paid here giving unfair advantage.
Supply Side Subsidy		
Matching Grant	Market failure: public goods	Federal needs state expending to reduce class size in education.
Tax expenditure	Market failure: positive externalities	Money spent on R&D is exempt from corporate income tax.
Demand Side Tax		
Commodity Tax / User fee	Market failure: negative externalities	Tax on gasoline, pay and buy stickers to put on trash bags
Demand Side Subsidy		
In kind subsidy	Distributional issues: floor on consumption	Two Kilos of maize one time per month per child in the household.
Voucher	Government failure: bureaucratic supply failure	Paper allowing you to send your kid to school district of your choice anywhere in Onondaga County.
Tax Expenditure	Market failure: positive externalities	Interest rate on mortgage is exempt from income tax.

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 .

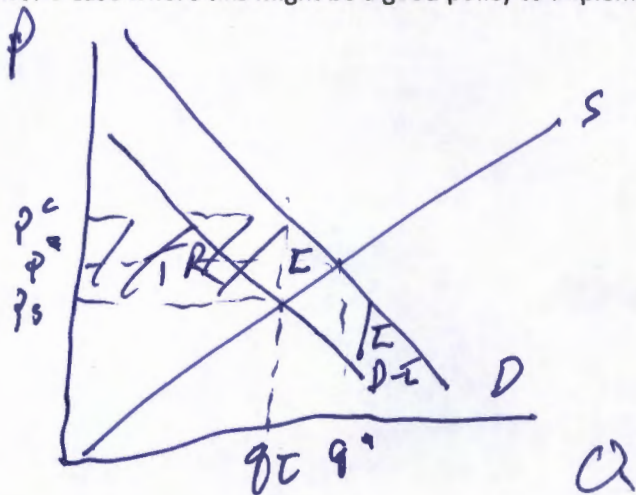


(a) and (b). c. Discuss what happened to consumption of X_2 and why it happened in your graphs for

In both cases, consumption of X_2 increased after the subsidy was given. That is because money that was being spent on X_1 consumption before the ~~transfer~~ transfer (subsidy) was freed up by the transfer (subsidy) to be spent on both X_1 and X_2 consumption.

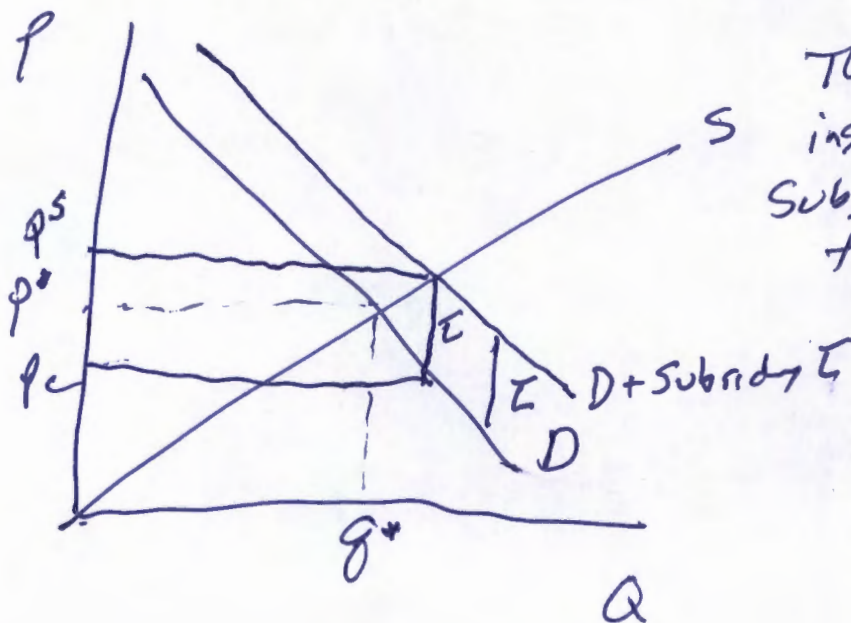
3) Subsidy and Tax.

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.



If $MC^E(q^E) = \tau$ this could be a Pigouvian tax to internalize an externality.

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.



The commodity is insulation and the subsidy leads to the socially optimal level of purchase as it includes energy benefits / lack of need to burn fuel needlessly + generate CO₂

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	Bureau of Land Management to manage public lands
Independent Agencies		
Government Corporations	Market failure: positive externalities	Port authority of NY & NJ. Coordinate regional transport network
Special Districts	Market Failure: Local Public Goods	Watershed management zone School Board/oversight
Contracting Out		
Direct Contracting	Market Failure: Local public good	Waste management trash pick-up
Indirect Contracting / nonprofits	Government Failure: Bureaucratic Supply Failure	Doctors without Borders, nonprofit health clinic Salvator Army