

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (20 points) Draw the supply and demand diagram for a product with a price floor. What is the problem it causes? If the government takes no additional actions, how would the market fix that problem. Explain your logic.
- 2) (20 points) Draw the supply and demand diagram for a product with a production quota. What is the problem it causes? If the government takes no additional actions, how would the market fix that problem. Explain your logic.
- 3) (30 points) Draw the supply and demand for a product which causes pollution. Prove that the optimal level of production is not achieved. What is the most efficient way for the government to reach the socially optimal situation? Show that on the graph and explain why the curve(s) moved as drawn and how it achieves the socially optimal point.
- 4) (15 points) Why is promoting competition an economic reason for a government?
- 5) (15 points) Income redistribution is listed as a political reason for a government. However, it can also be an economic reason for a government. Explain how logic.