HW 8

1) Suppose that in the market for paper, demand is p = 100 - Q. The private marginal cost is MCP = 10 + Q. Pollution generated during the production process creates external marginal harm equal to MC^e = Q. Is social welfare greater under monopoly or under competition?

2) Suppose three neighbors must vote on the installation of a traffic light that costs $210. The cost of the light will shared by all three. Voter A values the light at $50; voter B values the light at $50; and voter C (who drives the most) values the light at $200. If the voting rule is that the majority wins, does the light get purchased? Is it efficient to purchase the light?

3)
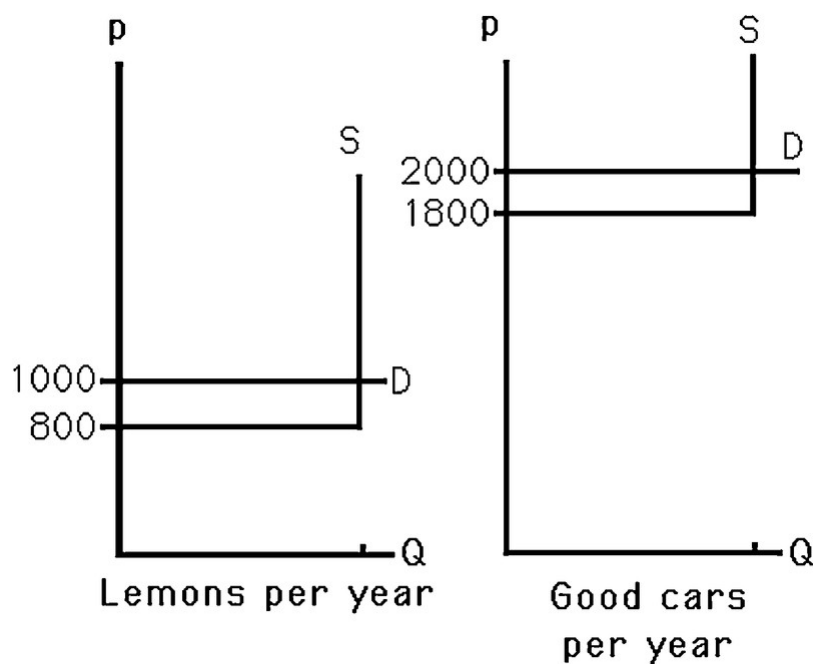
The market for used cars is shown in the above figure. Buyers cannot tell whether any given car is a lemon. The percent of all cars that are lemons is θ. What value of θ is necessary for all cars to be sold?