

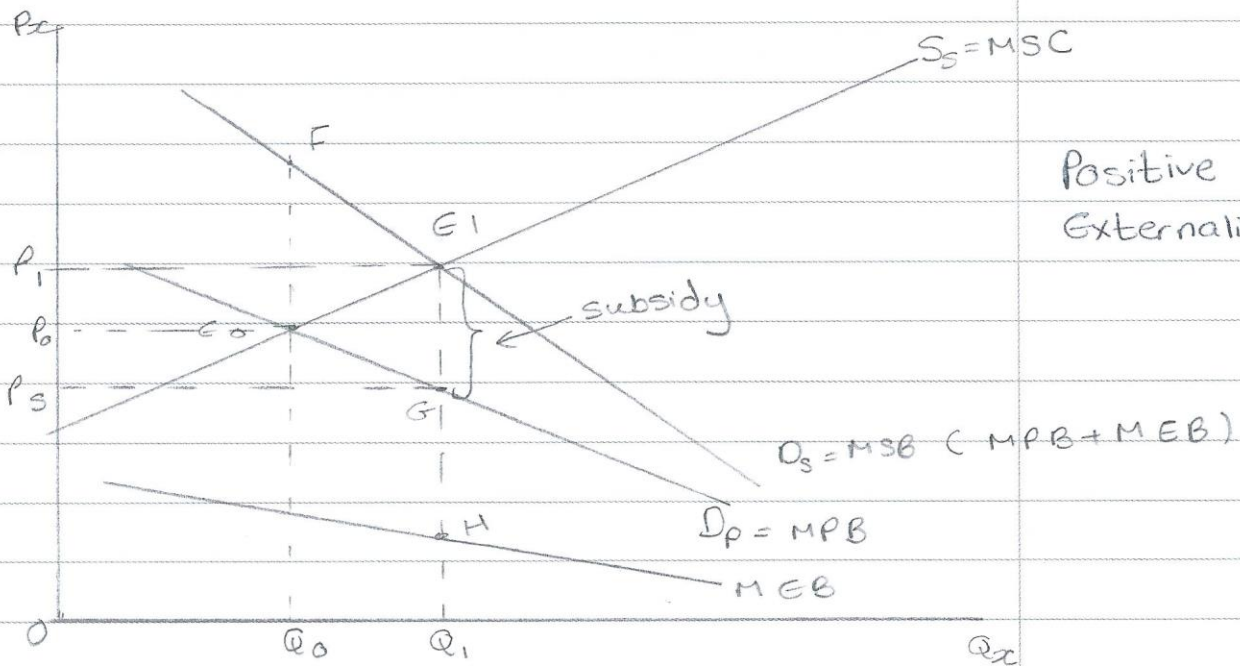


Q Oct/Nov 2012 SA Q1 (c) (2 marks)

A. (i) vertically (ii) Quantity Takers

Q. Oct/Nov 2012 SB Q4 (a) (15 marks)

Oct/Nov 2013 SA Q2 (a) (15 marks)



- o Pos. externality causes external benefits (MEB)
- o Pvt. equilibrium @ E_0 @ P_0 & Q_0 MSC (supply) = MPB (demand)
- o @ Q_0 \perp $MSB > MPB$
- o Social equilibrium @ E_1 ; P_1 ; Q_1 where $MSB = MPB + MEB$
- o Pvt. equilibrium inefficient (under-provisioning & under pricing)
- o Pigouvian subsidy = E_1G_1 = external benefit at social optimum output.
- o Price paid by consumer after subsidy = P_s
- o Price received by producer after subsidy = P_1



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Q Oct/Nov 2012 SB Q 6 (a) (10 marks)

A. CRITERIA	PUBLIC	PRIVATE
PROPERTY RIGHTS	Non-excludable	excludable
CONSUMPTION	Non-rival	Rival
AGGREGATE CURVE	Vertical addition of P	Horizontal addition of Q
EQUILIBRIUM	$\sum MU = MC$ $\sum P = MC$	$MU = MC$ $P = MC$

Q Oct/Nov 2012 SB Q 7 (b) (6 marks)

- A. Pure public good
Non-exclusion + non-rival e.g. defense
- o Mixed good
exclusion + non-rival OR rival + non-exclusion e.g. roads
 - o Merit good
mixed good / prt. good BUT politically meritorious e.g. edu.

Q May/June 2013 SA Q 1 (b) (2 marks)

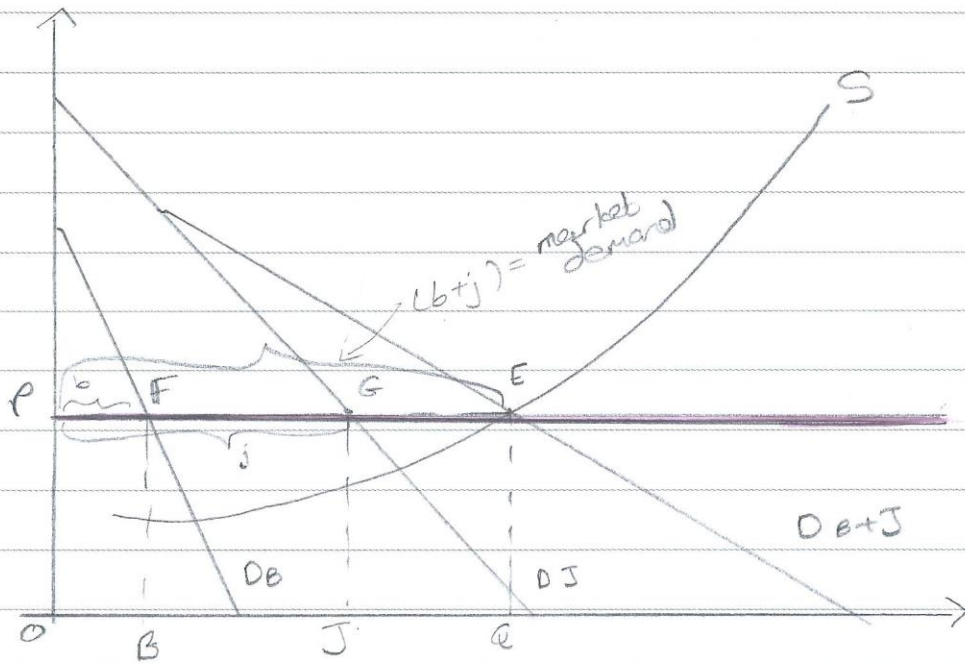
- A. It is indivisible, there non-rival in consumption & it's non-excludable



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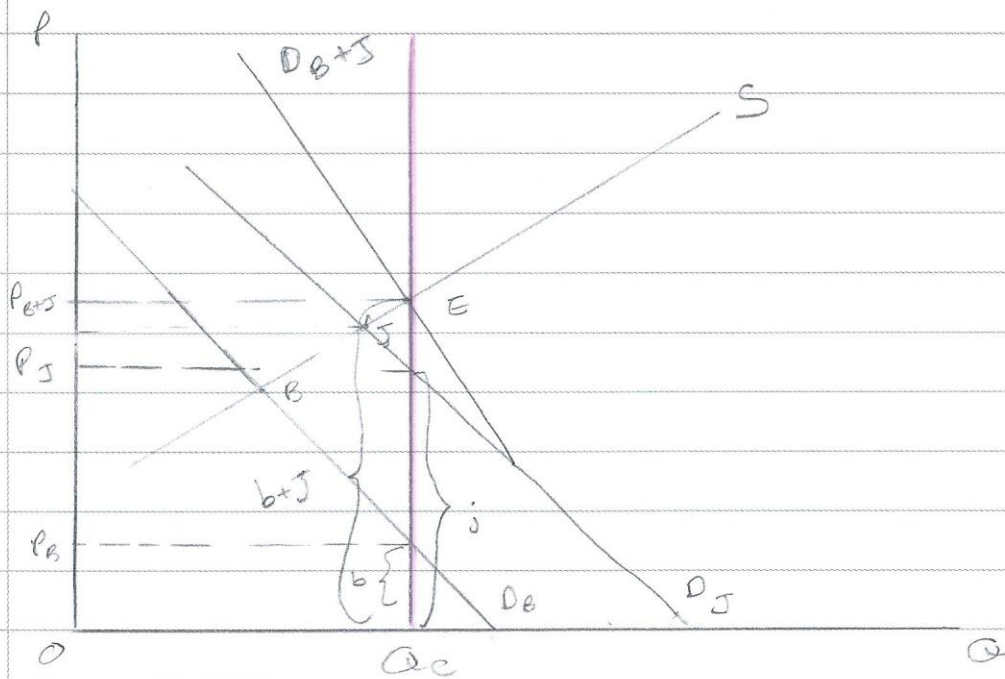
Q. May 2013 SA : Q 2 (a) (15 marks)

A.



EQUILIBRIUM
OF A PRIV.
GOOD

- o Supply of goods & services depends on revealed preferences of consumers (demand) ... signal to suppliers what they want.
- o rivalry in consumption (reduces availability)
- o excludability (ownership)
- o market demand:
 - consumers are Price takers / Quantity adjusters.
 - sum of quantities = market demand (horizontal addition).
- o @ equilibrium (efficiency rule)
 - condition for provision: $MU_b = MU_j = MC$
 - (area under D curve & S curve measures MU & MC respectively)
 - efficient pricing rule: $P = MC$



Market for public goods

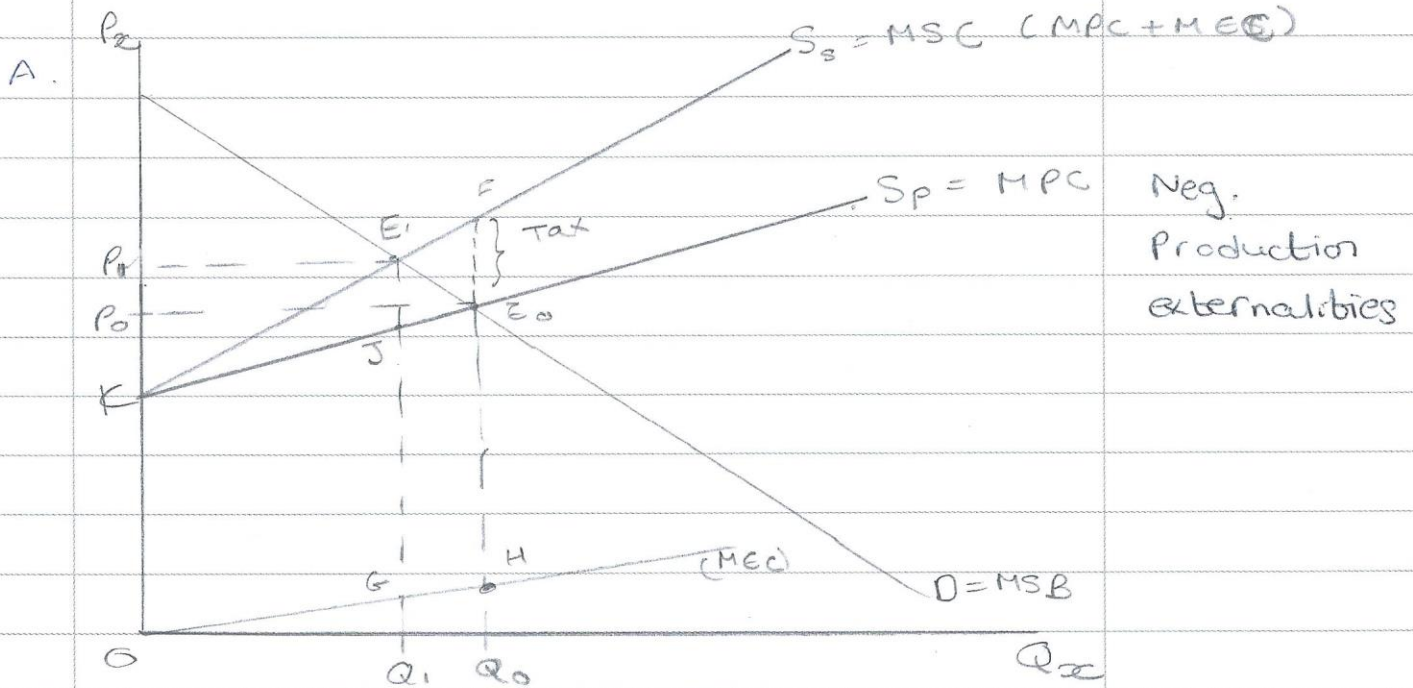
- o Supply depends on revealed preferences of consumers (pseudo D)... signal to suppliers what they want.
- o non-rivalry (does not reduce availability ... $MC = 0$... Pareto inefficient to exclude)
- o non-excludability (ownership rights cannot be assigned... incentive for free riding)
- o market demand
 - > consumers are P adjusters & Q takers
 - > sum of P = market demand (vertical addition)
- o @ equilibrium (efficiency rule)
 - > condition for provision: $MU_b + MU_j = MC$
(area under D curve & S curve measures MU & MC respectively)
 - > efficient pricing rule: $P_b + P_j = MC$
- o Market provision?
 - > impossible to determine P ($P = MC = 0$)
 - > incentive to free ride (non-exclusion)... under provision.
- o I respective conditions for optimal provision & pricing differ.

See below:

	PUBLIC.	PVT.
OPTIMAL PROVISION	$\sum MU = MC$	$MU = MC$
PRICING:	$\sum P = MC$	$P = MC$



Q May / June 2013 SB Q 7 (a) (10 marks)



- o MPC (supply) = MPB (demand) pub. equilibrium
- o causes external costs (MEC) = area KE_0F
- o $MSC = MPC + MEC \dots MSC > MPC$
- o social equilibrium @ E_1 , external costs = KJE_1
- o Pub. equilibrium inefficient due to over-provision & under pricing.
- o Role of govt?
 - regulation... Pigouvian Tax, property rights, sell permits... supply (cost) curve shifts.
 - ~~large subsidy~~ = ~~MEC~~ tax = MEC eg. (= E_0F) ... at output of Q_0 $MPC + tax >$ benefits or demand (ie. average revenue) & prod / consumpt. is \downarrow to Q_1
 - information constraints! costs... size... slopes

Q Oct / Nov 2013 SA Q 1 (d) (2 marks)

- A.
- (i) mixed good - non-rival if uncongested but excludable by adding a toll gate
 - (ii) public good - non-rival & non-excludable

Q Oct / Nov 2013 SB Q 7 (b) (10 marks)

A. See 2nd half of answer from May / June 2013 SA Q 2 (a)