WORKSHEET 5 – ANSWERS
Recitation for
Economics 2010-400 – Principles of Microeconomics
Fall 2007

This worksheet covers:
- Chapter 10: Externalities
- Chapter 11: Public Goods and Common Resources

1. An externality is the impact of
   a. society's decisions on the well-being of society.
   b. a person's actions on that person's well-being.
   c. one person's actions on the well-being of a bystander.
   d. society's decisions on the well-being of one person in the society.

2. An externality exists when
   a. the government intervenes in the operation of private markets by forcing the market to adjust to the balance of supply and demand.
   b. markets are not able to reach equilibrium.
   c. a firm sells its product in a foreign market.
   d. a person engages in an activity that influences the well-being of a bystander and yet neither pays nor receives payment for that effect.

3. Externalities cause markets to
   a. fail to allocate resources efficiently.
   b. cause prices to be different than the equilibrium price.
   c. benefit producers at the expense of consumers.
   d. cause markets to operate more equitably.

4. When externalities are present in a market, the well-being of market participants
   a. are directly affected and market bystanders are indirectly affected.
   b. and market bystanders are both directly affected.
   c. and market bystanders are both indirectly affected.
   d. are indirectly affected and market bystanders are directly affected.

5. At any given quantity, the willingness to pay in the market for automobile fuel is reflected in the
   a. value to the consumer of the last unit of automobile fuel bought.
   b. height of the supply curve at each quantity.
   c. value to the producer of the last unit of automobile fuel sold.
   d. total quantity of automobile fuel exchanged in the market.

6. When a negative externality exists in a market the cost to producers
   a. is greater than the cost to society.
   b. will be the same as the cost to society.
   c. will be less than the cost to society.
   d. and society will be different regardless of whether an externality is present.