

QUESTION SET 1 - ANSWERS
Directions for
Examiners: 2023-2024 – Strategic Management
Page 20/27

This question covers:

- Chapter 19: Externalities
- Chapter 20: Public Goods and Common Resources

1. An externality is the impact of
 - a. society's activities 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 activities on the well-being of one person in the society.
2. An externality exists when
 - a. the governmental intervenes in the operation of private markets by forcing the market to adjust to the balance of supply and demand.
 - b. markets are unable to reach equilibrium.
 - c. a firm sells its product in a foreign market.
 - d. **someone 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 generated in a market, the well-being of market participants
 - a. **are efficiently affected and market transactions are inefficiently affected.**
 - b. and market transactions are both efficiently affected.
 - c. and market transactions are both inefficiently affected.
 - d. are inefficiently affected and market transactions are efficiently affected.
5. In any given quantity, the willingness to pay to 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 that 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 costs 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.