

# Chapter 8

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## Put into practice questions

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**What should happen to the equilibrium price and quantity in a market if the supply curve shifts to the right?**

Lower equilibrium price; higher quantity

**What if demand shifts to the left?**

Lower equilibrium price; lower equilibrium quantity

Page 181

**An antiques expert has bought a valuable painting dating back to the 1700s at a car boot sale for £25. The painting has since been valued at several thousand pounds. Using the above example on page 181 in the textbook explain the concept of asymmetry of information**

The buyer and seller have different information and so the price it is sold at is not the market price if both side had the same information.

## End of chapter put into practice questions

Page 184

**Show the impact of monopoly on consumer surplus, producer surplus and community surplus**

See figure 8.6

Consumer surplus falls from P1EA to P2EC

Producer surplus rises from P1AB to P2CDB

Community surplus falls by CAD

**Imagine there was an increase in demand for a product that experienced a negative externality in production. Show the old and new price and output in a free market and highlight the new deadweight social burden triangle.**

The deadweight social burden triangle will be the area where the social marginal cost exceeds the social marginal benefit.

**Show on a diagram the welfare loss created by a positive externality.**

See Figure 8.7. This is the area where the social marginal benefit is greater than the social marginal cost.

**If the extra cost of providing a public good is zero show with the aid of a diagram the price and output that maximizes social welfare.**

Production should continue until the social marginal benefit = social marginal cost.

**Show the effect of a shift in supply (a) when supply and demand are both very price inelastic, and (b) both very price elastic. What does this show about the relationship between elasticities and the effect of shift in supply on equilibrium price relative to quantity.**

**The key distinction between merit goods and demerit goods is that:**

- a. The consumption of merit goods usually gives rise to positive externalities. TRUE
- b. In a free market demerit goods will be under-consumed but merit goods will be overconsumed. FALSE
- c. Merit goods can only be provided by the government. FALSE
- d. Demerit goods are an example of market failure but merit goods are not. FALSE

**With reference to Figure 8.12 which of the following would lead to a more socially optimum outcome?**

Higher price and lower output

**In the free market public goods:**

- a. Are under- provided in the free market
- b. Are over-provided in the free market
- c. Are not provided in the free market CORRECT
- d. Are free in the free market