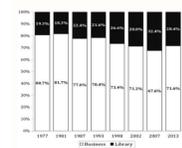


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	Abbrev.	Pa
e, Fisheries & Forestry	AGR	4
onment & Design	BED	
& Strategic Technologies	EST	7
g	ENG	2
n & Communication Technologies	ICT	2
l Research	BMR	1,1
edicine	CLM	2,7
y & Cognitive Sciences	PCS	2
alth & Health Services	PHS	2
	BIO	2
	CHM	1,6
nvironmental Sciences	EES	2
ics & Statistics	M&S	2
Astronomy	P&A	1,1



CONFIDENTIAL

TO: ROSENFELD, SUSSMAN, HARWOOD, SILBERMAN, HAYNES
JOHNSON, BERSTEIN, WODWARD

FROM: Bradlee, Simons

May 8, 1973

We are deep into Phase II of the Watergate Affair, and we're losing ground fast.

We are going to get back in front where we belong.

Our new problems stem from two facts:

- 1) We no longer have a monopoly on sources;
- 2) We have let our attention and our commitment become fragmented.

And so we are reacting when we were acting. We have more to do than the heroic Watergate pioneers can handle. We have no well-conceived priority system; we didn't need one when we controlled the pace of this story; we need one badly now that we don't.

Accordingly, we have decided to set up a special task force to get our wheels back on traction, to get us back on top of this great story and to keep us there.

Haynes Johnson will be in charge of this task force, working with Harry, Dick, Howard and myself.

Barry Sussman will handle the editing desk under Haynes.

They will take charge of the reporting staff:
* Bob and Carl, of course, of necessity, and of everything else.

- * Ed Walsh ?
- * Larry Stern ?
- * Sandy Ungar ?
- * Mort Mintz ?
- * John Harwood ?
- * Mike Wronsky ?
- * Gary Fox ?

After prior consultation with Dick, Harry, Howard and myself, Haynes and Barry can call on other reporters for special assignments.

All Watergate-related matter will clear through this desk.

The job of this task force is to set priorities, widen the field of investigation, coordinate the paper's reporting, get stories into the paper, get them right and get them first.

Carl and Bob have given us all enough glory for two lifetimes. Let's get going.

working spouse is entitled to 50 percent of a working spouse's benefit. Thus, her EITC falls by \$267.46 from \$4,204 to \$3,936.54 (=4,204-0.2106*(16,000-14,730)). Zach's marginal benefit is MBZACH=90-Q, and Jacob's is MBJACOB=40-Q. The marginal cost is constant at MC=16. Libertarians would probably oppose a law prohibiting prostitution, while social democrats would likely favor such a law. Thus, the V curve not only "shifts" upward, but becomes steeper as well. This demonstrates that although multi-peaked preferences may lead to voting inconsistencies, this is not necessarily the case. In order to achieve cost-effective emission reductions, the emissions fee should be set equal to \$3,000. This generates both an income effect and a substitution effect. By rearranging the equation, we can see that B=t*W/(Nb+Gw)-1. Neither person values the first lighthouse at its marginal cost of \$100, so neither person would be willing to pay for a lighthouse acting alone. On the other hand, Stein's assertion that inequality per se is unimportant is inconsistent with utilitarianism. Benefits would have to fall almost by half. The examples cited in France and Germany illustrate a third option of little or not support of higher education from either private tuition dollars or public tax dollars. Below, the preferences for Person 1 and Person 2 are drawn. Given the U.S. experience with the Budget Enforcement Act of 1990, we would expect the EU deficit limits to be ineffective. It is possible that companies could identify themselves as high-tech in order to receive the subsidy. If the individual buys insurance for \$1,000, then they have certain income of \$29,000 and the utility of \$29,000 is 11.66. According to the maximin criterion, social welfare depends on the utility of the individual who has the minimum utility in the society. Social indifference curves are straight lines with slope of -2. 60 61. Women have gained because they have lived longer. One explanation discussed in the chapter is that the shift toward managed care led to a one-time decrease in expenditures, but advances in medical technology continue resulting in a constant growth in expenditures. Even though education is primarily a private good, many argue that educating children provides external benefits, limiting TGRs effectively limits the demand for gasoline so the price per gallon will fall but consumers must have TGRs in order to purchase gasoline. The actual welfare benefits collected by a person equals B=(G+I)*(Earnings-D), where B=actual benefits, G=welfare grant, I=tax rate on earned income, and D=standard deduction. As long as the allocation is an interior solution in the Edgeworth box, the marginal rates of substitution must be equal across individuals. This solution is the same as the solution achieved with the emissions fee. The MRS for each individual must also equal the MRT. As shown in the text, equality of the marginal rates of substitution is a necessary, but not sufficient, condition. 29. 30. 67 68. This causes the benefits to be significantly overstated and could be used to justify such high costs. The mechanistic view of government says that the government is a contrivance created by individuals to better achieve their individual goals. Taking the derivative of Mark's utility function to find his marginal utility function yields MUM = 50/(IM-1/2) and taking the derivative of Judy's utility function yields MUJ = 100/(J-1/2). This debate is similar to the debate about private versus public education. Another is that government purchases of goods and services grew, but at a slower rate than the GDP. The firms must still pay the cost of emissions reduction, plus Firm 2 must pay for the permits purchased from Firm 1. The cartel situation, the quantity of milk produced is too low from society's point of view. Patients pay a monthly premium, a small annual deductible, and a 20 percent coinsurance rate. Wage Rate per hour Hours per year SL DL W1 W2 L2 L1 D'L. Chapter 1 - Introduction 72 73. Hours worked fall to zero with the 100 percent marginal tax rate, while hours worked fall some, but not all the way to zero, with the 66.67 percent marginal tax rate. There are too many farmers and too many city-dwellers for a private negotiation. Chapter 1 - Introduction 8. There is no economic reason why the federal government should subsidize the production of electricity, whether the electricity comes from coal, nuclear power, or chicken manure. Chapter 1 - Introduction 1. If the method presented in Figure 9.4 is applied to the deadweight triangle will have an area equal to \$12.50. More generally, the diagram shows that when different sectors are taxed at different rates, the allocation of resources is distorted, and real income falls as a result. When Eleanor's hours (earnings) go from 1,000 to 1,500 (\$8,000 to \$12,000), she qualifies for the maximum EITC (according to Figure 13.8 in the textbook). Compared to the salesperson, the executive has \$555,000 more in income and pays \$750 more in taxes, so the marginal tax rate is 0.14%. It would also be useful to control for other factors that can affect interest rates, such as monetary policy and the level of economic activity. A change in the marginal tax rate changes the individual's net wage. (Cassanova's friends gain gchd; Cassanova loses chd but gains abcd, which is a subsidy cost to government.) 3. Assuming this family of four consisted of a mother and three children, each with \$175 of monthly childcare costs, then B=(G-E-2E-D-C)=471-.3(81994-134-525)=471-\$280.86=\$190.14, which is then rounded down to \$190. If the marginal benefit of visiting the doctor is \$50, there is no deadweight loss because marginal benefit equals marginal cost. Allowing individuals to join the Medicare prescription drug benefit plan at any time would like lead to an adverse selection problem. Her income rises from \$16,204 to \$19,936.54. With Sherry's utility function, her utility with \$136 of income is US=100(\$136)^1/2, or US=1,166.190. The set of possible allocations is a straight line, 100 units long. These technologies tend to be expensive. Thus, (Earnings-D) is the net earnings that are taxed away in the form of reduced benefits. Many low-wage earners would be better off working zero hours with this kind of program in place, as shown in Figure 13.6. c. Society is indifferent between a unit to each individual, not a dollar to each individual. The federal government grew by \$910 billion. Chapter 1 - Introduction 9. Same procedure is used for the other three people. The merger internalizes the externality. Thus, part of the budget constraint is eliminated (though the overall shape remains the same as before). Efficient provision of a public good occurs at the level where total willingness to pay for an additional unit equals the marginal cost of producing the additional unit. This is likely to be true for many households. One possibility is that GDP stayed the same, and government purchases of goods and services fell. At the notch, the marginal tax rate is greater than 100%. In the diagram below, the optimal point involves saving \$8,000 and future consumption consists of period 2 income (\$5,000 plus savings with interest \$8,000). The marginal benefit for society as a whole is the sum of the two marginal benefits, or MB=20-3Z (for Z=4), and is equal to Thelma's marginal benefit schedule afterwards (for Z=4). With an \$8,000 education voucher, the family can spend some of its income on education to purchase more education if it desires. The workers who spend time on a computer probably have other skills and abilities that contribute to higher wages, so training children to use computers would not necessarily cause their earnings potential to improve. There are several reasons why automobile insurance provision is likely to be inefficient without government intervention. The budget constraint initially has units of Medigap on the x-axis, and other goods on the y-axis. In such a case, the students' higher test scores might reflect that they have very involved parents rather than that they were in a smaller class. Chapter 1 - Introduction There are many ways to design incentive-based regulations. It is likely that the elasticity of demand for television is quite inelastic. If the probability of being caught is 0.2 and the fine is \$100, the expected cost is \$20. Notch = \$384 Other Goods or Annual Income Leisure The food stamp "notch" with 24% tax rate on earned income \$23,928 Chapter 1 - Introduction stamp notch." This notch would be even higher if the household qualified for a childcare deduction, child support deduction, or shelter deduction. Compared to the part-time worker, the salesperson has \$36,000 more in income and pays \$1750 more in taxes, so the marginal tax rate is 4.86%. There would be no change in optimal consumption values. If the probability of being caught is 0.1 and the fine is \$200, the expected cost is again \$20. To maintain solvency, the right-hand side must also fall by \$1,000, so benefits must fall by 1,000 times the ratio W/(Nb+I). If, for example, there are three covered workers for every retired worker, so that W/(Nb) is equal to 3, then the necessary reduction in the expected value of benefits is \$3,000. Trading should continue until MC1 = MC2, which is the cost-effective solution. Thus, her income goes up from \$10 to \$11,200. Then E1 = 2677*(B/W)^1/2 = 458*(B/W)^1/2 follows that it is applied to the deadweight loss triangle. 4. False. If households are allowed to supplement public education with private lessons, then the budget constraint in Figure 4.5 of the textbook is modified by drawing a line starting at point x (consuming only public education) that runs to the southeast and is parallel to AB. Consumers bear 60 percent of the tax burden and producers bear 40 percent. Someone with an organic conception of the state believes that the goals of society are set by the state
and individuals are valued only by their contribution to the realization of social goals. This amount corresponds to an annual food stamp benefit of \$2,280. It could be the case that each lawmaker has inserted favored provisions with the understanding that other lawmakers will support the overall package provided it contains the provisions they favor. P=100-25Q=\$50, so Q=2 visits per year. For example, parents might have greater educational attainment in the state whose teacher's have master's degrees and the higher test scores could reflect this rather than the difference in teachers' educational attainment. The grant is reduced to zero if Lois works 20 hours per month since her hourly wage rate is \$10. 50 51. Suppose the government is initially providing an in-kind benefit of 10 units of free public transportation, worth \$2 each, so the cost of the subsidy is \$20. If this change in revenue is positive, then dTR=QdP-QdQ=0, or QdP/PdQ=0. The cost of each trip is 40 cents, or \$4 per year. Public goods may be privately supported through volunteerism, such as when people who attend a fireworks display voluntarily contribute enough to pay for the show. The existence of UI may make workers more likely to accept employment in industries where the probability of future layoffs is great. There is no compelling reason to think the private sector would have higher costs than the public sector. One justification for the compulsory nature of Social Security is to address the inefficiently low saving caused by moral hazard. The organic view would probably lead to favoring the mandate on the grounds that reducing health care costs caused by fewer accidents benefit society. 11-2. Whether or not it is sensible for government to pay for a public good, someone else has to pay the government bonds that it is holding. The increase in insurance payments is size for two reasons - first, by providing the same sum of the conventional deadweight loss and the rents, or \$160 rents = \$240. The change in the slope leads to a greater value of Q*. The efficient level of output. With these two consumers, Thelma's utility increases as Sherry's utility increases. In an experimental study, the group engaged in running would not be correlated with good health or a strong heart, even if they enjoyed longer life expectancy, it could be attributed to running instead of other factors. Social indifference curves are straight lines with slope of -1. The Senator's slip revealed her interest in creating and protecting jobs in California by keeping the project alive. MJ is in M. Chapter 1 - Introduction 28 29. Part 1 - Getting Started 10. When Germany exceeded the deficit target, no moves were taken to levy the required fines. e. First, concern with health care costs does not mean that health care is not a "good." Economists do not care about the cost of health care per se. However, recent research reveals that the free rider problem is an empirical question and that we should not take the answer for granted. The economic strategy should be chosen carefully to account for this. Thus, this redistribution increases social welfare, but is not Pareto efficient redistribution. For those who argue that the scheme for financing Social Security is unfair because people with low earnings are taxed at a higher rate than those with high earnings, the key issue is that the cumulative payroll tax of 12.4 percent is capped for each person, after which the payroll tax is zero (this ignores the 2.9 percent uncapped Medicare tax, however). Costs of compliance, however, may be high and would appear as an increase in a "regulatory budget." b. If a dollar to the "poor" is valued the same as a dollar to the "middle class," choose the subway project. The supply of TGRs is vertical at 104.5 billion if government seeks to reduce consumption of gasoline to 104.5 billion. By giving up tea and getting crumpets through the production function, both utilities are raised. Remember that as long as the earnings of college graduates reflect their higher productivity, the belief that higher education is more expensive does not imply the existence of an externality. 46 47. If the trust fund buys stocks, someone else has to buy the government bonds that it is holding. The increase in insurance payments is size for two reasons - first, by providing coverage it pays for the majority of the already sizable medical expenses incurred by this group, and second, introduction of insurance makes the group consume even more medical services. Other Goods Education \$8,000. Note that we don't care if the remaining money (\$5.33) is given to Simon or not. This study illustrates the difficulty of determining cause and effect based on correlations. In the absence of persuasive evidence on positive externalities for higher education, there is no efficiency reason for the government to provide a free university education. 35. 36. 37 38. The diagram shows the correct shape of the budget constraint, but the "577" figure should be replaced with "645" and the "9" hours should be replaced with "22.5". The figure below draws the budget constraint using annual levels for the food stamp program, using 2004 rules and assumes no childcare expenses. Moral hazard arises when obtaining insurance leads to changes in behavior that increase the likelihood of the adverse outcome. As shown in the graph, the subsidy acts to increase the demand for prescription drugs, so the price rises. The childcare deduction ranges between \$175 and \$200 per child per month. Individuals who do not save enough for their retirement years may believe that the government will feel obliged to come to their aid if they are in a sufficiently desperate situation. If, on the other hand, the supply of labor is upward-sloping, the imposition of a payroll tax would cause equilibrium employment to fall, and cutting the tax would then have a positive effect on hiring, as suggested by the editorial. Then each dollar given to Jonathan raises welfare more than the same dollar given to Lynne. Bill is willing to pay 25 cents to save 5 minutes, so he values time at 5 cents per minute. So, there is no new saving and no new capacity to take care of future retirees. However, Firm 1 is better off because instead of having to pay taxes, it will receive a payment of \$30,000 for its permits. Other rationales are based on equity, including a belief in commodity egalitarianism. "Sin taxes" work the opposite way and apply to commodities that members of society might demand, but ought not to have. However, because the price level went up by 24 percent, in terms of 2005 dollars this amounted to a real increase of \$540 billion (=52.47 trillion - 1.24*\$156 trillion=\$2.47 trillion-\$1.93 trillion). Firm 2 has a lower tax burden because it is reducing emissions from 80 units to 50 units. If there is vote-trading, then voter B would agree to support issue X provided voter A supports issue Y. allowing both bills to pass. Social efficiency implies PMB = Social Marginal Costs = \$5 + \$2 = \$7; X = 3 units. Examining Figure 9.4, we can see why health care costs increased for the state of Tennessee. Any point along OO' represents some allocation of capital between the manufacturing sector and the non-manufacturing sector. MRSTARZAN = MRSJANE = 2. 10. However, the total amount of TGRs is limited by government. This change would reduce efficiency, but the purpose of the policy is to improve equity, based on an argument that it is unfair that urban residents should have to pay more for insurance because they are more likely to be involved in accidents. In regards to distributional issues, it is likely that the private sector would be less responsive than the public sector. Social Security benefits older generations because it is largely financed on a pay-as-you-go basis. There will be more users in larger communities, but all users have access to the public good which has been provided since the good is non-rival, so there is no reasons larger communities would necessarily have to provide a larger quantity of the non-rival good. Thus, her total income is \$745 (=A100+\$645). Part 1 - Getting Started Chapter 12 - Income Redistribution: Conceptual Issues 1. 6. Initially, Firm 1's MC is zero, while Firm 2's MC is \$4,000, so there is a strong incentive for Firm 2 to purchase permits from Firm 1. In all cases, the demand curve for housing slopes downward. With the program in effect, her budget constraint is ABCD. Thus with an organic view would probably favor the law if they hold the view that every member of the society should speak the native language. Assuming that a curio (costs per unit of Q) does not change, then this shift increases the actual number of food inspectors hired. Benefits =(\$62,500/1.25) + (\$62,500/1.252) = \$90,000. This explanation implies that HMOs helped prevent rising health care costs during the 1990s, but have been unable to keep costs low due to rapid advances in technology. From an equity standpoint, subsidies for college students represent a transfer from taxpayers to college students, so subsidizing higher education may or may not result in a more equitable distribution of income. The private market allocation is likely inefficient without government intervention. Without vote-trading, neither bill would pass. 30 31. This is a Pareto-improving policy if the increased efficiency in the education market more than offsets the reduced efficiency in the market for cigarettes. Recall that efficiency requires MRSTARZAN + MRSJANE = MRT. If, if the utility-maximizing combination of food and other goods had been at point E with the cash grant (or any other point on the segment AB), then switching from a cash grant to food stamps would force the individual to a lower indifference curve and the new equilibrium would occur at point B. If the offset rate is lower than the rate of return workers can earn on private accounts, workers will gain, and vice
versa. For a two-earner married couple, the individual with lower earnings may gain little or nothing in benefits from working, since he or she would have been entitled to benefits based on the other spouse's earnings. At 2 units, MB=MSC=13. We would expect "accounting tricks" to mask the size of the deficits (such as itemizing various budget items as "unexpected emergencies"), and if that didn't work, we would expect the deficit rules to be ignored. This would happen if discoveries cannot be patented. Rather, the issue is whether there are distortions in the market that lead to more than an efficient amount being consumed. The marginal cost of the third visit is \$50, but the marginal benefit is \$25, so the deadweight loss is equal to this difference, or \$25. If the implicit rate of return from Social Security is lower than the private return, the budget line becomes flatter at the endowment point as present consumption falls from \$20,000 to \$17,000 when \$3,000 is taken for social security. This assumption is not realistic. Income Leisure Hours \$107 \$2007 T-20 A T-30 Chapter 1 - Introduction d. Part 1 - Getting Started b. The figure below is then similar to the analysis of in-kind benefits like food stamps. Part 1 - Getting Started Instructor's Manual to accompany Public Finance, Eighth Edition, by Harvey S. Setting MB=MC along the first segment gives 20-3Z=16, or Z=4/3, which is the efficient level of employment. When there is a vote over five options, there is the chance that a potential majority vote is split between four relatively preferred options, and the fifth option wins. A B \$50,000 \$50,000 Chapter 1 - Introduction c. By mandating that people purchase auto insurance if they choose to drive, the adverse selection problem is mitigated to some extent (but, again, more accident prone drivers could be more generous plans). Since expected utility is higher for the first option, assuming diminishing marginal utility, the second option would have a stronger deterrent effect and lead to a larger reduction in littering. A cash subsidy equal to \$20 would allow the consumer to reach point B as well, so the government could convert an in-kind subsidy valued at \$20 to a cash subsidy of \$20 and leave people equally well off. First, we can derive the solution setting PCT = PP: Next, setting PC = PPT: Therefore, both approaches lead to the same outcome. If the problem is that too much water is being consumed, then the answer is to increase the price of water. Solving this expression for yields = 6 percent. However, some firms might exercise some market power, especially in the software market; in these markets "network externalities" may be present where the value of a programming language or piece of software is dependent on the number of others who also use that software. This would cause the optimal point to change and put the individual on a lower indifference curve. d. The bankruptcy "floor" on costs creates various moral hazard problems. After the mandate, the point (0,30000) is available, as well as all of the points to the southeast of the point (8000,22000). Since only five states reduced income taxes, we could examine what happened in a control group of states (those with an income tax but with no change in the tax rates) and compare savings rates between the two. U0 Other Goods Medigap efficiency units Medigap choice without minimum standards 30,000 3,000 5,000 25,000 Chapter 1 - Introduction After the "minimum Medigap" mandate, the consumer can either choose 0 units of Medigap or 8,000 or more units of Medigap. The most extreme example is Ida Fuller, the first Social Security beneficiary, who paid only \$24.85 and received benefits of \$20,897 over her lifetime. The present value of the perpetual annual benefit = P + B/(r + r) + B/(1 + r)^2 + ... = B/(r + r) = B/r. Another possibility is that the utility-maximizing point for a cash subsidy differs from the utility-maximizing point for an in-kind subsidy, as illustrated in the next graph. U1 U0 A Food Stamp Guarantee D Other Goods Food FIGURE 7.7 - Black market where food stamps are sold for fifty cents on the dollar, higher utility Sell food stamps for other goods on black market F Chapter 1 - Introduction If the MRS were less than (or equal to) 1 in absolute value, the person would be made better off and would reduce food consumption by selling the food stamps on the black market. Total costs = \$16x55,000 = \$880,000. She receives the full EITC when her earnings exceed \$10,510, at which time the credit equals \$4,204 (=0.4*\$10,510). The structure of HMOs creates incentives for health care providers to skip on the quality of care. If there is an increase in both the price and quantity of housing, then the supply curve slopes upward. If the size of government is measured by direct expenditures, the mandate does not directly increase it. Too many people are involved for private negotiation and impossible to figure out how to transfer bribes. The statement about how the different rates of return in the stock market and government bond market affect the solvency of the trust fund is false. Libertarians believe in a very limited government and are skeptical about the ability of government to improve social welfare. Chapter 1 - Introduction Chapter 6 - Political Economy 1. Cutting the tax would cause the demand curve to shift back to the right, toward the original demand curve, and cause equilibrium employment to move back toward L1. With a wage rate of \$10 per hour, Elizabeth earns \$100. If we assume the benefit of using the bicycle is immediate (and worth \$170), there is also the benefit of re-selling the bicycle for \$350, but it can't be re-sold until next year, so must be discounted. Chapter 1 - Introduction Chapter 11 - Social Security 1. The equation indicates that it is better to tax many commodities at a lower rate than to tax a few commodities at a higher rate. The outcome of the second election (9 vs. Thus, expected income is \$25(\$30,000) + 0.05(\$10,000) = 29,000. In such cases, the answers provide here check only a few possibilities. Participants in the study had to bring an advantage to be a part of the experiment, which may have resulted in a self-selected nonrepresentative view of the wider group of health care consumers. The rent associated with the cartel is the product of the marginal profit per unit and the number of units produced. If only Charity matters, then give money to Charity until MUc = 0 (address all the money in the economy is exhausted first). If the goal of public policy is to maintain a constant level of benefits, B, rather than a constant replacement ratio, (B/W), then taxes may not need to be raised. It is not clear that this is fair. Part 1 - Getting Started Chapter 15 - Taxation and Efficiency 1. There are many policy alternatives for addressing problems with traffic congestion. The number of parties per month that would be provided privately is P. 47. 48. There is no way to determine which safety precautions are sensible. But the elimination would, in effect, confiscate the value of this asset. These moral hazard problems are likely to be more serious as the after-tax replacement rates rises. Q0 D0 5 PHOUSING QHOUSING FIGURE 8.7b - Demand curve shifts outward, perfectly elastic supply P0 D1 Q1 Part 1 - Getting Started b. This kind of program curbs consumption without giving government more revenue because consumers are purchasing the TGRs from each other. The belief that the tax bill will pass because it contains provisions sought by so many different lawmakers is consistent with the logrolling model. Although splitting the peanuts even between the people may be fair, it may not be fair if the calorie "needs" of the people are different. \$50,000 \$50,000 \$58,000 Part 1 - Getting Started d. The net benefit is \$112.5 for each person, for a total of \$225. Firm 2 must pay \$30,000 for the extra permits, but it also avoids the payment of taxes. If we set MUM equal to MUJ, the condition for maximization becomes IJ = 4IM and, since the fixed amount of income is \$300, this means that Mark should have \$60 and Judy should have \$240 if the goal is to maximize social welfare = UM + UJ. Hence, the rents do not represent a mere lump-sum transfer; it is a measure of real resources used up to maintain a position of market power. The firm's demand curve goes from 0 to 1,000 (\$8,000 to \$8,000) and the supply curve goes from 0 to 1,000 (\$8,000 to \$8,000) and the supply curve goes from 0 to 1,000 (\$8,000 to \$8,000). The deadweight loss triangle is computed as the area of the triangle formed by the demand curve, the supply curve, and the difference between the cartel price and competitive price as the "height." Thus, the triangle is equal to (1/2)*(80-40)*\$2=\$40. The increased time spent at the inspection must be counted as a cost of the program. Also, although it would be harder to measure, one could want to gain some sense of how the regulatory burden on the economy grew during this time period. If the two firms could not trade permits, then Firm 2 would have to undertake all of the emissions reduction. Hence, society is indifferent among all distributions of income. Hence, while introducing HMOs can lead to a once and for all decrease in the rate of change in health care costs, there is nothing that an HMO can do to lower the cost of continually providing the latest in medical treatments. In the graph below, the effect is to increase private saving slightly. TGRs \$ 104.5 billion Supply of TGRs Demand for TGRs \$0.75 Part 1 - Getting Started 4. Drivers who know they are particularly accident prone will be particularly likely to want car insurance (or policies with greater coverage), while drivers who are less accident prone (or able to self-insure) might choose to go without insurance. 27 28. Assume that firms allocate capital between the two sectors to maximize total incomes. However, if state and
local governments offset this by increasing taxes, the size of the government sector as a whole would not go down as much as one would have guessed. With \$8,000 worth of free public education, the family can consume up to \$8,000 worth of education without reducing the consumption of other goods. If policymakers assume that the benefits of the mega-jetliner are public, then they would find the efficient level of production by vertically summing demand curves rather than horizontally summing demand curves. The total subsidy=abcd. If consumers purchase cell phones in other states in order to avoid the tax, then the excess burden will be quite large. Since Peter does not have to pay Social Security and Medicare payroll taxes on unemployment benefits, approximately 55 percent of his income goes to him. The number of units produced. If only Charity matters, then give money to Charity until MUc = 0 (address all the money in the economy is exhausted first). 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