First off, thank you VERY much to those of you who are kind enough to type your answers. That makes our job as graders much easier, and we do appreciate it.

Second, the biggest comment from the graders is to READ THE QUESTIONS! Read them carefully and answer all parts. If the test says not to write in pencil, don’t write in pencil! If a question says that social welfare has improved, assume that it has improved. These skills are crucial to anything you will ever do, so please be careful.

Now, in terms of points. James graded questions 1 and 2, and Negar graded question 3. If you have a question about how it was graded, please talk to whoever graded your part. At the same time, please don’t bother us with small issues of a point or two. 4 of your 5 homeworks will comprise 20% of your final grade, or less if you decide to write the paper. Assuming that you put the same effort into each of the homeworks, and assuming that the first homework is approximately as difficult as (or more difficult than) the others, then one point on this homework amounts to at most (4/5) probability of this homework being relevant to your final grade, x (1/75) points out of the maximum on this homework, x (5/20) points one homework will count out of the four that are finally counted, which at most 1/375 of your grade in the course. That is not worth your worrying about and it’s not worth our worrying about.

Here is how the homework grade was determined. Question 1, the true and false questions, were worth a total of 5 points. The second question wasn’t quite clear, so everyone should have received a point for it, regardless of what they answered. Question 2, the monopsony/ “intermediary” (middleman) question, was worth 20 points. Question 3 was worth a total of 50 points, including the essay.

Specific points to note: on the true and false, question b, there are two issues. First, the situation DOES describe an externality, and just because something creates a positive externality does not mean that the government doesn’t want to get involved. For example, there are tax breaks for people who buy fuel efficient cars, which internalizes the positive externality of reduced emissions. The response we were hoping for was that the government doesn’t need to get involved in every little detail, but many people missed that. Still, we decided that the question wasn’t totally fair, and so everyone got points as if the question had been answered correctly. On question c), many people said that the type of tax (producer or consumer) decided who would be burdened by the tax. That’s wrong- either type of tax could affect either group of people, depending on the elasticities of supply and demand. On question d), redistribution is NOT a requirement for the Kaldor-Hicks criterion: the K-H criterion says a state is an improvement if it is possible for redistribution to make the allocation a Pareto Improvement. The redistribution does not have to happen.

Part III, the monopsony, was somewhat flawed, as some astute people pointed out: if the monopsonist was facing the competitive price, the “demand curve” given wasn’t actually relevant, and she would have chosen a different quantity than the one given by the
traditional monopsonist formulation. Credit was given for both answers, particularly on part III f) and again when that became relevant as part of the answer for part IV f. Thus, the answer to problem IV f was labeled correct either for an answer of 875 or for 125, and two answers were also accepted for part III f.

On part III b, total cost is not equal to the integral of marginal cost. (It IS equal to the integral of the marginal outlay.) This is because all units have the same cost: if the first unit purchased were purchased at the bottom point of the curve and each additional unit were purchased for a progressively higher cost, then the total cost would be the sum of the area under the MC curve. However, that’s not the case: the buyer pays the same for all of the books, and the easier p*q formulation is best to use. Note that this is unlike the area under the marginal externality cost curve, where the first bit of pollution is assumed to do less damage (i.e. cost society less) than the 100th.