Full set of Questions.

1. Demand equation equals to Qdemand= -\*P

Supply equation equals to Qsupply=- +\*P

Government decides intervene to the market and set the number of quantity produced equal to 150 units. Find the social surplus before intervention of government. What is associated dead weight loss with government intervention? Provide graphical analysis as well.

1. Demand equation equals to Qdemand= -\*P

Supply equation equals to Qsupply= +\*P

Government decides intervene to the market and set quantity of good equal to 2500 units. Find the social surplus before intervention of government. What is associated dead weight loss with government intervention? Provide graphical analysis as well.

1. Discuss the effect of price changes on budget constraint. Explain substitution and income effect. Show these effects graphically.
2. Explain the four methods of valuing saved lives in the context of cost-benefit analysis. Discuss disadvantages of each method.
3. Provide explanation of any four principles out of 10 principles of Economics and give some examples about them.
4. Explain why a consumer’s optimal choice is the point at which her budget constraint is tangent to an indifference curve?
5. What are advantages of market economy from central planned economy? Does it always achieve efficiency in the economy? Why and why not?
6. A consumer consumes two goods x1 and x2. The utility function is given as following:

 U(x1, x2)= \*x11/2x21/2

Compute the marginal utilities for x1 and x2 and briefly explain their characteristics. Compute MRSx1, x2 and interpret results.

1. Use production possibilities frontier to describe idea of efficiency.
2. Draw and explain production possibilities frontier for an economy that produces milk and cookies. What happens to this frontier if disease kills half of the economy’s cow?
3. Describe the role of prices in market economies.
4. List and explain the four determinants of price elasticity of demand.
5. Is the price elasticity of supply usually larger in the short-run or in the long-run? Why?
6. Explain main difference between contingent valuation and revealed preferences with one example. Discuss the related disadvantages.
7. Discuss the first and second welfare theorem. Mention main principles of each of them.
8. Why the Marginal Rate of Substitution has to be equal to Marginal Rate of Transformation in Pareto efficient point?
9. Explain the logic of Pareto improvement by using Edgeworth box. Provide intuition for each of your step in the box.
10. Explain the factors that causes market failure. Provide intuition for each of them.
11. Explain that how price elasticity of demand and supply affects the Consumer and Producer surplus. Answer this question by the help of graphs.
12. Explain the main logic behind Utilitarian Social Welfare function and Rawlsian Social Welfare function.
13. Since the free market(competitive) equilibrium maximizes social efficiency, why would the government ever intervene in an economy?
14. There are two customers, A and B and two commodities, x and y. Consumer A and B has the following preferences:

UA (XA, YA) =1/3\*XAYA UB (XB, YB)=1/3\*XBYB

A: X= B: X=

 Y= Y=

Solve formally for the Pareto efficient allocation of X and Y. Maximize utility of consumer A.

1. There are two customers, A and B and two commodities, x and y. Consumer A and B has the following preferences:

UA (XA, YA) =XA2 YA UB (XB, YB)=XB 2 YB

A: X= B: X=

 Y= Y=

Solve formally for the Pareto efficient allocation of X and Y. Maximize utility of consumer B.

1. There are two customers, A and B and two commodities, x and y. Consumer A and B has the following preferences:

UA (XA, YA) = (XAYA )2 UB (XB, YB)=(XB YB )2

A: X= B: X=

 Y= Y=

Solve formally for the Pareto efficient allocation of X and Y. Maximize utility of consumer A.

1. Explain the main tradeoff between equity and efficiency in the short-run and long-run.
2. Winner and losers of trade. Answer the question from two perspectives: Country is importer and exporter.
3. Discuss the effects of tariff on social surplus by the help of graph.
4. List at least 4 arguments for supporting open trade. Briefly discuss each of them.
5. List at least 4 arguments that are mostly used by supporter of tariffs on trade. Briefly discuss each of them.
6. Explain “The infant industry argument” of supporters of tariff in the trade policy of government. Is it correct argument? Why and Why not?
7. Consider the demand Qd=-P and supply Qs=+P. If government imposes $ tariff for each unit of good imported, what will be dead weight loss and total social surplus.
8. Define and give an example of a public good. Can the private market provide this good on its own? Explain
9. Explain four types of the good. Mention properties and provide an example for each of them.
10. Explain the term altruism and warm-glow. Provide an example for each of them.
11. When is private provision likely to overcome the free rider problem?
12. Is the private provision of public goods is efficient? Why and why not?
13. Let´s assume that there are two customers, C and D, in the market and two types of good, such as Public (P) and Private (S).

 Marginal Rate of Substitution of customer C is $\frac{+ P\_{C}}{(P\_{D} +P\_{C} )}$

Marginal Rate of Substitution of customer D is $\frac{+ P\_{D}}{(P\_{D} +P\_{C} )}$

Marginal Cost of providing one more unit of public goods for customer C is and for customer D is .

Based on above given information, find the social optimal level of public goods.

1. What is crowd-out problem? Explain partial and full crowd out.
2. What is cost–benefit analysis of public goods? Why is it important? Why is it hard?
3. Discuss each type of externality with one example, such as negative production externality, positive production externality, negative consumption externality and positive consumption externality.
4. Separately explain the dead weight loss in social surplus due to negative production and positive consumption externality by the help of graph.
5. Discuss the ways to internalize the effect of externality (at least two of them).
6. Discuss problems with Coasian solutions to internalize externality.
7. Briefly discuss distinctions between Price and Quantity Approaches to address Externalities.
8. How can government solve the problem of multiple plans with different reduction cost of externality? Explain your answer.
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There is positive consumption externality of $. Find the associated dead weight loss of this positive consumption externality. Draw graph.

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There is negative consumption externality of 10$. Find the associated dead weight loss of this positive consumption externality. Draw graph.

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There is positive production externality of $. Find the associated dead weight loss of this positive consumption externality. Draw graph.

1. Discuss main advantages and disadvantages of price regulation(taxes) and quantity regulation on the context of externality.
2. Consider the following graph and mention the key findings from this graph (this graph is about the different pollution reduction rate of two companies). What is main idea behind this graphical illustration.



51. Explain difference between average and marginal tax rate with one example. Moreover, discuss regressive, progressive, and proportional tax systems.

52. How can we check tax fairness? Discuss vertical and horizontal equity.

53. What is the main idea behind Haig-Simons comprehensive income definition? Explain the main drawbacks of this definition.

54. Explain Externality/Public goods rationales for deviating from Haig-Simons.

55. What is Rationale behind having an Alternative Minimum tax?

56. Why should causality losses or large medical expenditures be fully tax-deductible only in certain circumstances?

57. Discuss different types of tax in US. Provide example for each of them.

58. Discuss different types of tax in Azerbaijan. Provide example for each of them.

59. Assume there is worker A in Azerbaijan with income of manats and worker B in Azerbaijan with income of manats. Calculate after tax income of both workers.

60. Discuss vertical and horizontal equity of Haig-Simons comprehensive income definition.

61. Give some examples about tax deductions and exemptions in US. Explain some of them and discuss the purpose for these types of exemptions.

62. Discuss tax inefficiency. Use graphs in your explanation.

63. How do elasticities determine tax inefficiency?

64. The magnitude of DWL of tax rise depends on many factors. List and explain those factors.

65. A market’s preexisting distortions affect Tax efficiency of system. Explain this fact by the help of graph.

66. Progressive tax systems can be less efficient. Explain this fact by help of graph.

67. Explain the main idea behind Ramsey taxation (the theory of Optimal commodity taxation).

68. Ramsey rule shows that two factors must be balanced when setting optimal commodity taxes. Explain these factors.

69. What are the equity implications of the Ramsey model?

70. Explain the main idea behind Laffer curve by the help of graph.

71. What kind of different balances do optimal income tax reflect? (vertical equity and behavioral responses). Explain each of them.

72. Discuss tax-benefit linkage in the context of income tax.

73. Tax efficiency cost rises with the elasticities of supply and with square of the tax rate. Explain the reasons for this fact.

74. How would you like to measure the loss from taxation? Why does it call cost?

75. What is determinants of DWL in taxes? Discuss each of them.