



AP[®] Microeconomics 2001 Sample Student Responses

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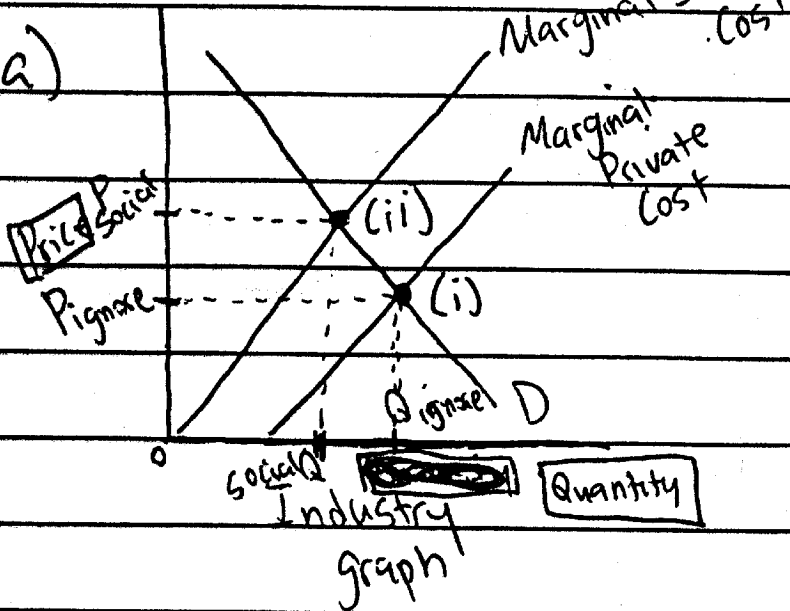
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2MICCLA

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2MIC

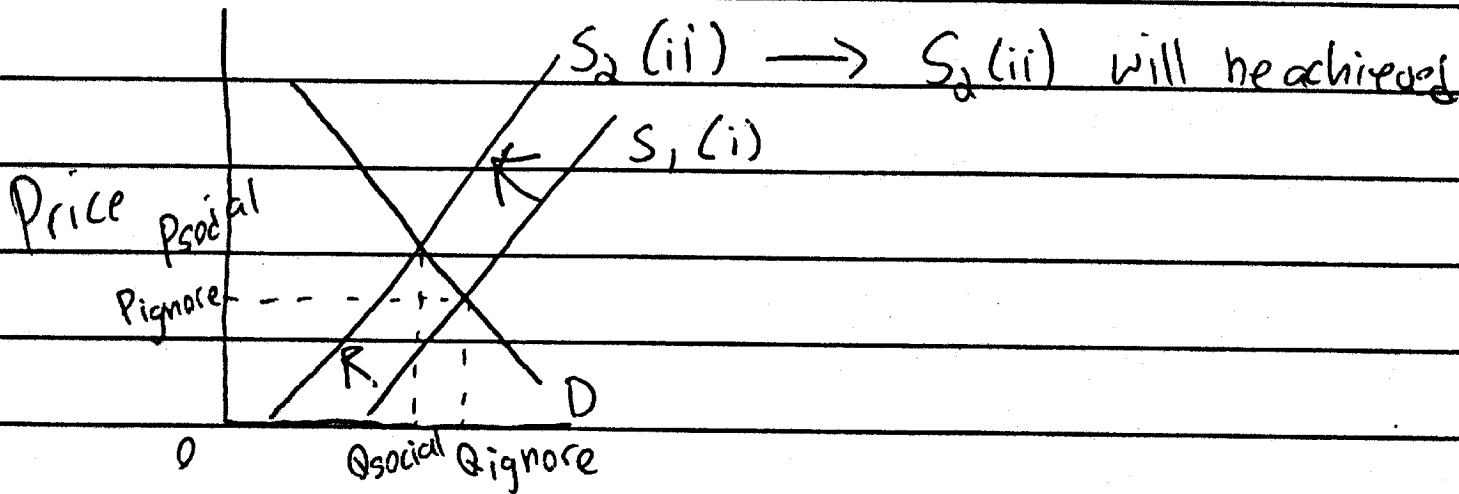
a)



i) P_{ignore} and Q_{ignore} show the output and price where the industry ignores the externality.

ii) P_{social} and Q_{social} show the output and price where the industry produces the socially optimum level of output.

b) The government should institute a tax on the ~~goods~~ ^{products} produced output of the industry. This would cause the industry to restrict its output, achieving the socially optimal output shown in (ii)

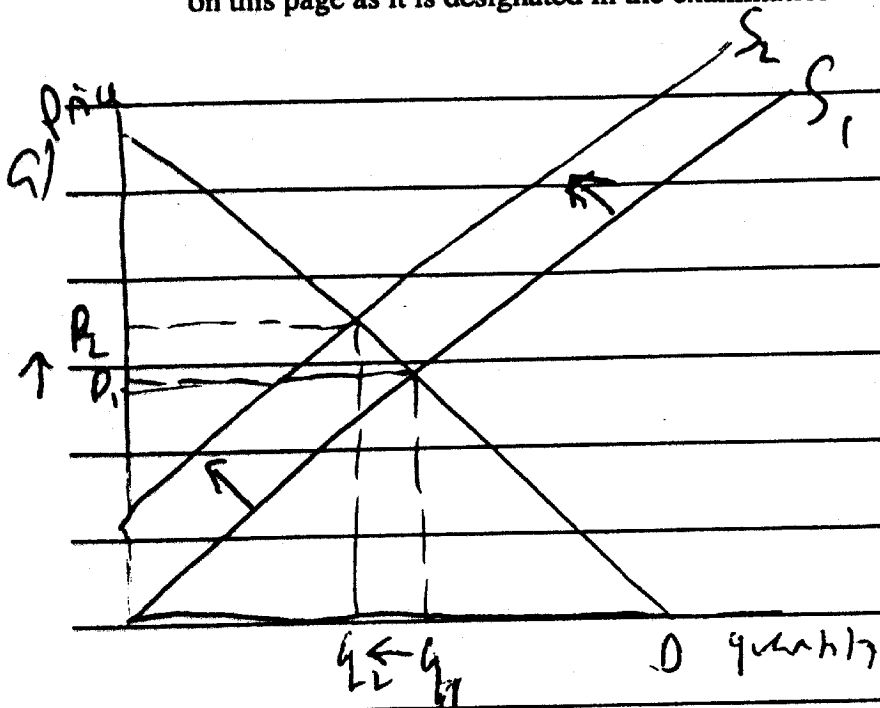


Quantity
Industry graph

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2

2 MIC



(i) Q_1 represents the output if the industry ignores the externality
 P_1 represents the price if the industry ignores the externality

(ii) The producer of product X cut supply, lowering output from Q_1 to Q_2 and raising price from P_1 to P_2

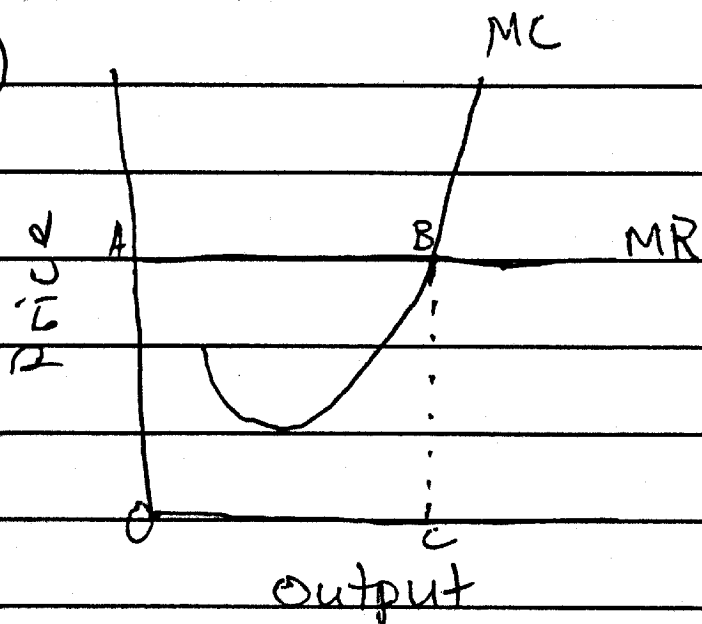
b) The government could create a law mandating that all companies absorb their negative externalities by producing at the socially optimum level of output. This could achieve the level of output illustrated in my graph from part (a).

Write in the box the number of the question you are answering on this page as it is designated in the examination.

2

2. (a)

2MICCLG



(i) Since the industry ignores the externality it will produce as it normally would.

(ii) The socially optimal level of output is where $P = MC$. As shown in the graph that is Output C.

(b) The government ~~might~~ could put a tax on Good X. They could tax every unit of Good X that the firm produces which would decrease output to the socially optimal price.