

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (35 points) Illustrate the following on the supply and demand diagram for steel. It is well known that steel production produces pollution. 1) Show both the social and private marginal costs and marginal benefits. Explain why they are not the same. Prove that the optimal level of production is not reached by the free market. What is the best option the government has for solving the problem? 2) Illustrate that solution on the graph and explain how it solves the problem.

2) (25 points) On page 101, the book tells about how Finland has changed the way their system fines speeders. From a purely economic point of view, i.e., not a moral point of view, is that method logical? Explain your reasoning.

3) (20 points) Using the tax brackets on page 107, if a person earns \$30,000 of taxable income, how much is the total tax they pay? Show all work.

4) (20 points) What is a public good? What is the economic reason that the government must provide it?