

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (30 points) Draw the supply and demand for flowers. Assume they create a positive externality. Use your graph to prove the market will not produce the optimal quantity of the flowers. Illustrate how the government can induce the market to produce the optimal quantity of flowers. Explain why that approach will work and why the curve(s) moved as drawn.
- 2) (15 points each) For each of the following, explain why it is an economic reason for government.
 - A) Imperfect competition
 - B) Income redistribution. (The book says this is a non-economic reason, but it is also an economic reason and that is what I want you to explain.)
- 3) (25 points) Draw the supply and demand for cigarettes. Illustrate a tax on them. Explain why the curve(s) moved as drawn. What happens to the price consumers pay and the price producers receive.
- 4) (15 points) At first glance, it would appear that the sales tax is proportional. A bar chart on Page 33 of *The State of Working West Virginia 2008* implies that it is not. Why isn't it?