AGEC 350  
Lecture #4 due 9/10/2009

Questions based on “Electricity demand pushing limits”  (August 18, 2006)

1. Why were there possibilities of blackouts? Doesn’t supply and demand work?

2. If TXU had carried out their expansion, how would this have affected the supply and demand for electricity in Texas?

3. In 2007, TXU was bought by Texas Pacific Group and Kohlberg Kravis Roberts & Co., which immediately canceled plans to build 8 of the 11 new plants proposed by TXU. What effect do you think this will have on long-term energy prices in Texas compared to the situation if TXU had gone ahead with its expansion?

Questions based on the Berck and Helfand (B&H) chapter 3  
(This is a very important chapter. Read it carefully.)

4. Consider each of the following goods, you should be able to tell whether it is a private good, an open access good, a club good, or a public good and explain why.

   Space at a public beach

   National defense

   Gasoline

   An electronic copy of a song
5. Write down the definition of scarcity and come up with an example of an economic good that is not scarce.

6. How do market transactions lead to Pareto improvements?

7. List each of the 6 types of market failure and come up with your own example of each.