Questions based on “In Maryland, Focus on Poultry Industry Pollution”

1. An externality occurs when the actions of one individual or firm affect the welfare of someone else without consent or compensation. In the article, who are the two parties being discussed and what is the external effect?

2. From an economic perspective, why does focusing on poultry make more sense than imposing additional restrictions on urban development?
Questions based on the Berck and Helfand (B&H) chapter 4

3. This chapter presents the basics of consumer choice, concepts that will be familiar to many students. If you can complete this exercise without looking at the chapter, then you can probably get away with simply skimming over this chapter.

- a. Suppose an individual has a budget of $200. Draw her budget constraint goes through points A and B. What are the prices of Stuff and Electricity?
- b. Suppose that the individual’s income increases to $220. If prices do not change, draw her new budget constraint.
- c. Now draw a budget constraint that would be consistent with an income of $220 and an electricity price of $40 and a price for Stuff of $1.
- d. Suppose that we find the following.
  - Under the conditions from question a the individual consumes 2 units of Electricity and 160 units of Stuff. (Point C)
  - Under the conditions from question b the individual consumes 3 units of Electricity and 180 units of Stuff. (Point D)
  - Under the conditions from question c the individual consumes 1.5 units of Electricity and 180 units of Stuff. (Point E)
  - Draw 3 indifference curves that would be consistent with these results.
- e. Draw a demand curve and put two points on it for the individual assuming an income of $240.
- f. Approximating, double the price of Electricity to $80 find a reasonable point on the demand curve using the indifference curves.