These questions are based on the article, “E.P.A. Plans New Limits on Toxic Chemicals in Drinking Water.”

1. The figure below presents the demand for drinking water, both with and without perchlorate and the MC to provide that water. Assuming that these curves are known with certainty, what areas would determine whether a regulation on perchlorate passes a benefit-cost test?

2. The eventual regulation on perchlorate will probably require all water supply agencies in the country to ensure that levels of the chemical are below a specific threshold (e.g. in milligrams/liter). Since the regulation will be uniform, will this be cost effective?