Microeconomics, Module 19, “Common Property and Public Goods” (Chapter 14)

Illustrative Test Questions

(The attached PDF file has better formatting.)

Question 19.1: Common Property

Which of the following is *not* an example of common property?

A. A lake that residents freely use to catch fish.
B. A forest that is open to any loggers who wish to use it.
C. A grassland that all members of a tribe use for grazing.
D. A satellite transmission that can be received by anyone who has a satellite dish.
E. A beach that is open to all bathers.

Answer 19.1: D

No one’s utility is reduced if others receive the satellite transmission. The good is non-rivalrous; it is not common property. There is no dissipation of rents or tragedy of the commons; more satellite dishes *increase* social utility (except perhaps for the aesthetics of satellite dishes on roofs).

Question 19.2: Social Gain from Common Property

When is the social gain that people obtain from common property maximized?

A. When their marginal cost equals the social marginal benefit.
B. When their marginal cost equals their average benefit from the property.
C. When the social marginal benefit equals the average value received from the property.
D. When the entrance fee that a private owner can charge is as large as possible.
E. When the economic rent from the property is zero.

Answer 19.2: A

Social gain is maximized when social revenue equals social cost.

Question 19.3: Unrestricted Use of Common Property

If use of common property is unrestricted, people increase their use as long as their marginal cost is smaller than

A. The social marginal benefit of the common property
B. The competitive entrance fee that a private owner would charge
C. The monopolistic entrance fee that a monopolist would charge
D. The rent created by the common property
E. The value they receive from using the common property

Answer 19.3: E

Private marginal value equals *private* marginal cost. This is the problem with common property; social benefits and costs are not considered.

Question 19.4: Economic Rent

When will a property create zero economic rent?

A. When the property has a private owner who charges a monopoly entrance fee.
B. When the property has a private owner who charges a competitive entrance fee.
C. When the property is commonly owned and the opportunity cost of using it is the same for everyone.
D. When the property is commonly owned and the opportunity cost of using it differs by user.
E. When the property has a private owner and the government charges an excise tax equal to the difference between the competitive entrance fee and the monopolistic entrance fee.

Answer 19.4: C

If the cost of using the property differs by user, only some persons use the property, so some economic rent remains.

Question 19.5: Opportunity Costs

A lake stocked with fish is common property, but each fisher faces a different opportunity costs when using the lake. The social gain created by the lake is

A. As large as possible
B. Positive, but less than the maximum possible
C. Equal to the difference between the fishers' average and marginal catches
D. Zero
E. Less than the social gain if all fishers have the same opportunity costs

Answer 19.5: B

Since the fishers have different opportunity costs, some fishers still gain social benefits when no more fishers use the lake.

Question 19.6: Public Zoo

Crowding affects the value received by users at a public zoo. To maximize the economic rent created by the zoo, the municipality should

A. Charge a competitive admission fee
B. Allow visitors to have free admission to the zoo.
C. Accept voluntary contributions from zoo visitors.
D. Charge the same entrance fee that a monopoly owner would charge.
E. Use a two-part tariff for admission to the zoo.

Answer 19.6: A

A competitively set entrance fee maximizes social benefit.

Question 19.7:

Which of the following is the best example of a public good that is both nonexcludable and nonrivalrous?

A. The Mona Lisa

B. Municipal firefighting services
C. Computer software
D. Fish in the ocean
E. National defense

Answer 19.7: E

- Fishing rights are rivalrous; if one person catches the fish, others can't.
- Painting, software, and municipal services are excludable. The fire department may only fight fires on homes that have paid a municipal fire-fighting tax. Paintings and software can be restricted to paying customers.

Question 19.8: Private Provision of Public Goods

A fireworks display for a community is worth $10 to each of 100 residents. The display costs $700. A private group plans to raise the funds needed to purchase the fireworks display by asking each resident for a contribution of $8. This plan is unlikely to succeed because

A. The social value of the fireworks display is less than its cost.
B. The fireworks display is a rivalrous good.
C. Each resident has the incentive to free ride.
D. People would be willing to contribute $7 but not $8 each.
E. Poor residents would view the tax as regressive.

Answer 19.8: C

Voluntary payments for public goods don't work because each person has an incentive not to pay but still receive the benefits from the good. In contrast, voluntary payments are used to buy private goods.

Question 19.9:

Common property is best classified as

A. A nonexcludable good
B. A nonrivalrous good
C. Both a nonexcludable good and a nonrivalrous good
D. Either a nonexcludable good or a nonrivalrous good
E. Neither a nonexcludable good nor a nonrivalrous good

Answer 19.9: A

If there is no admissions charge, any person may use the common property, so it is non-excludable. Since each person's utility is reduced by the use of the common property by others, it is rivalrous.

Question 19.10: Common Property and Social Welfare

A municipality owns common property for which it does not charge an entrance fee. If the municipality privatizes the property in a competitive auction, what is the effect on social welfare?

A. Social welfare increases.
B. Social welfare decreases.
C. Social welfare does not change.

D. Social welfare increases if the new owner of the property charges a competitive entrance fee and decreases if the new owner charges a monopolistic entrance fee.
E. Social welfare does not change if the new owner of the property charges a competitive entrance fee and decreases if the new owner charges a monopolistic entrance fee.

Answer 19.10: A

Question 19.11: Common Property and Social Welfare

A municipality owns common property for which it does not charge an entrance fee. If the municipality privatizes the property in a competitive auction, what is the effect on social welfare?

A. Social welfare increases, and there is a wealth transfer from taxpayers to the new owner.
B. Social welfare increases, and there is a wealth transfer from the new owner to taxpayers.
C. Social welfare increases, and there is no wealth transfer.
D. Social welfare does not change, but there is a wealth transfer from taxpayers to the new owner.
E. Social welfare does not change, but there is a wealth transfer from the new owner to taxpayers.

Answer 19.11: C