Economics 290   **Practice Midterm 2**

I. Answer the following questions True, False or Uncertain and *briefly explain*. If it is true, explain why it is true. If it is false, explain why it is false. If it is true under some circumstances and false in others, explain what it is that makes this the case. (6 points each)

1. The prisoners will always cooperate in a prisoner's dilemma.
2. Minimum wages help the poor.
3. Canada is too high cost to trade with China.
4. If a country is operating on its production possibilities frontier, it is operating efficiently.
5. Immigration lowers wages and is therefore harmful to local residents.
6. The tragedy of the commons is that not enough people want to graze their cattle there.
7. Pollution should be reduced to zero.

Define or explain briefly the context in which the term is relevant. Each question is worth 3 points.

1. oligopoly?
2. the WTO?
3. comparative advantage.
4. maximum sustainable yield
5. internalizing an externality

Discuss. Each question is worth 20 points.

1. Suppose the taxi cab industry is initially competitive. Now suppose that a taxi must have a license to operate as a legal taxi. A fixed number of licenses are issued. These licenses can be bought and sold. A) As the city grows, what do you expect to see happen to the service levels provided by taxis? B) What changes in economic conditions will make these licenses more valuable? Less valuable? C) Is the taxi industry "efficient"?

2. As a matter of economic efficiency, does it matter if people can pay to be allowed pollute or be paid not to pollute?

[This practice document is longer than the actual quiz, so don't panic.]