**Markets and Efficiency**

1. What’s the definition of a market transaction?
2. Why do we assume every market transaction should be mutually beneficial?
3. What is the definition of social efficiency?
4. Why in general can’t environmental goods be allocated through markets?
5. What is the difference between the marginal willingness to pay for the 3rd unit of a good and the willingness to pay for three units?
6. Explain why for goods designated as private, the private benefits equal the social benefits of the good?
7. What is meant by the concept of Marginal Private Benefit (MPB) and Marginal Social Benefit (MSB)?
8. Is it possible that for a specific unit of a good, MPB=0 while MSB>0?
9. Is it possible that for a specific unit of a good, MPB>0 while MSB=0?
10. How do we measure Marginal Private Benefits (MPB)?
11. What is the definition of the concept of scarcity?
12. How does a supply curve reflect scarcity?
13. What is the definition of Marginal Social Cost (MSC)?
14. What is the definition of Marginal Private Cost (MPC)?
15. What does an upward sloping supply curve say about the scarcity of inputs?

**Market Equilibrium**

P

S=MPC=MSC

P\*=3.00

D=MPB=MSB

Q\*= 25

Quantity (1,000’s per week)

1. Why is Q\* considered socially efficient?
2. What is the relationship between MSB and MSC for Q<25?
3. What is the relationship between MSB and MSC for Q>25?
4. Why is any quantity other than Q\* considered socially inefficient?
5. What is the relationship between social efficiency and social net benefits?
6. How do we know that social net benefits are maximized at Q\*?