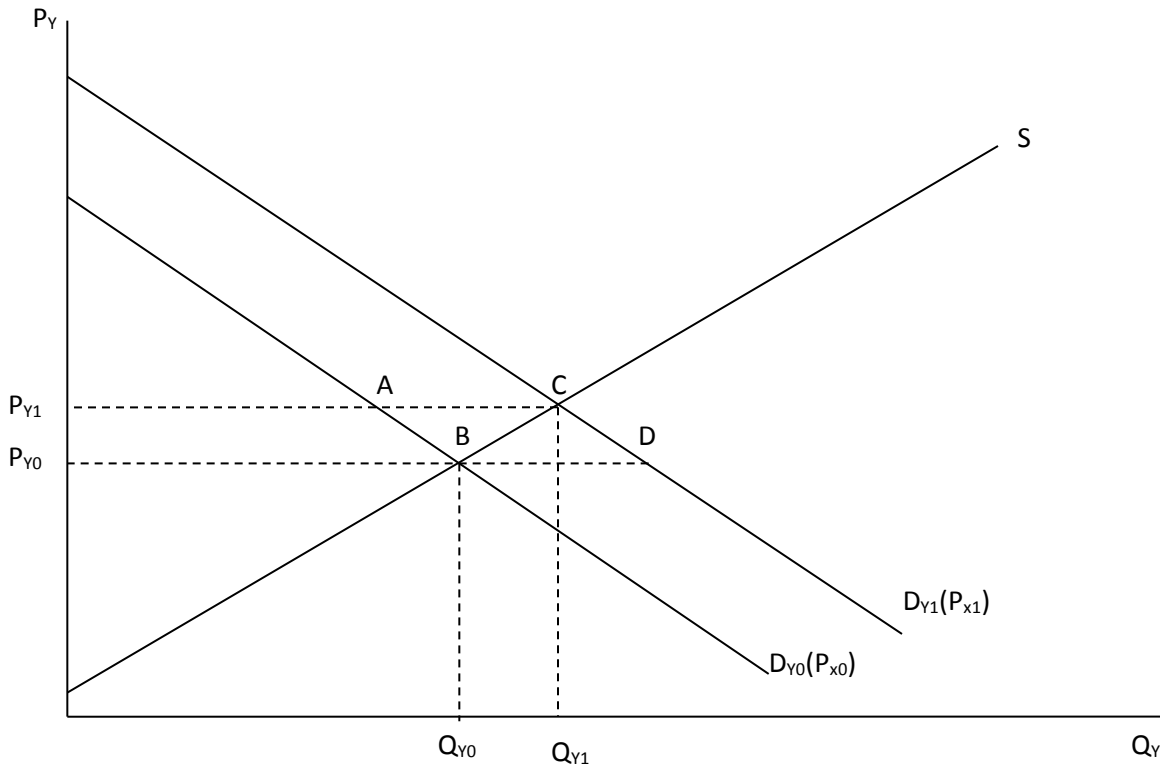


Quiz #4 (answers)
 ECNS 432
 Fall 2017

Name _____

(10 points) Consider the primary market for good X. Suppose a policy is implemented such that the perfectly elastic MC of X falls. Now, consider that good Y is complimentary to good X and the policy change causes the below outward demand shift in the secondary market for good Y:



Assume no market failures exist in the market for good Y. When conducting a CBA on the policy change implemented in the market for good X, what is the net change in surplus between producers and consumers in the secondary market for good Y that should be counted in a welfare analysis from a theoretical point of view? For your answer, show ΔPS , ΔCS , and the net change in social surplus (i.e. $\Delta SS = \Delta PS + \Delta CS$).

$$\Delta PS = P_{Y1}CBP_{Y0}$$

$$\Delta CS = -P_{Y1}CDP_{Y0}$$

$$\rightarrow \text{net change in surplus} = -CDB$$