

Quiz #1  
ECNS 432  
Fall 2018

Name \_\_\_\_\_

**1.) Social choice rules (9 points)**

Suppose we have a small inhabited island with three residents and a volcano that generates air pollution. Two people live upwind of the volcano and one person lives downwind. For \$21,000 upwind people would pay \$1,000 each to get rid of the smoke whereas the downwind person would be willing to pay person. Plan B calls for the affected part (the downwind person) to pay \$21,000 and everyone Pareto criterion; (b) majority rule; (c) the compensation principle.

Summary of answers

	PLAN A	PLAN B
Does plan pass under the following choice mechanisms?		
Pareto Criterion	No	No
Majority Rule	No	Yes
Compensation Principle	No	No

## 2.) WTP in Cost-Benefit Analysis (4 points)

List two issues related to using WTP as the measure of benefits in CBA that we discussed in class.

- a. Limitations of WTP as a basis for social ordering.
  - Ranking policies in terms of net benefits does not guarantee a transitive social ordering of the policies
- b. Dependence of WTP on distribution of wealth
- c. Dependence of net benefits on assumptions about who is given standing

## 3.) Term paper (2 points)

Write down two potential paper topics (i.e. two hypotheses you are interested in testing) that you have been thinking about researching. Try to **be specific**