

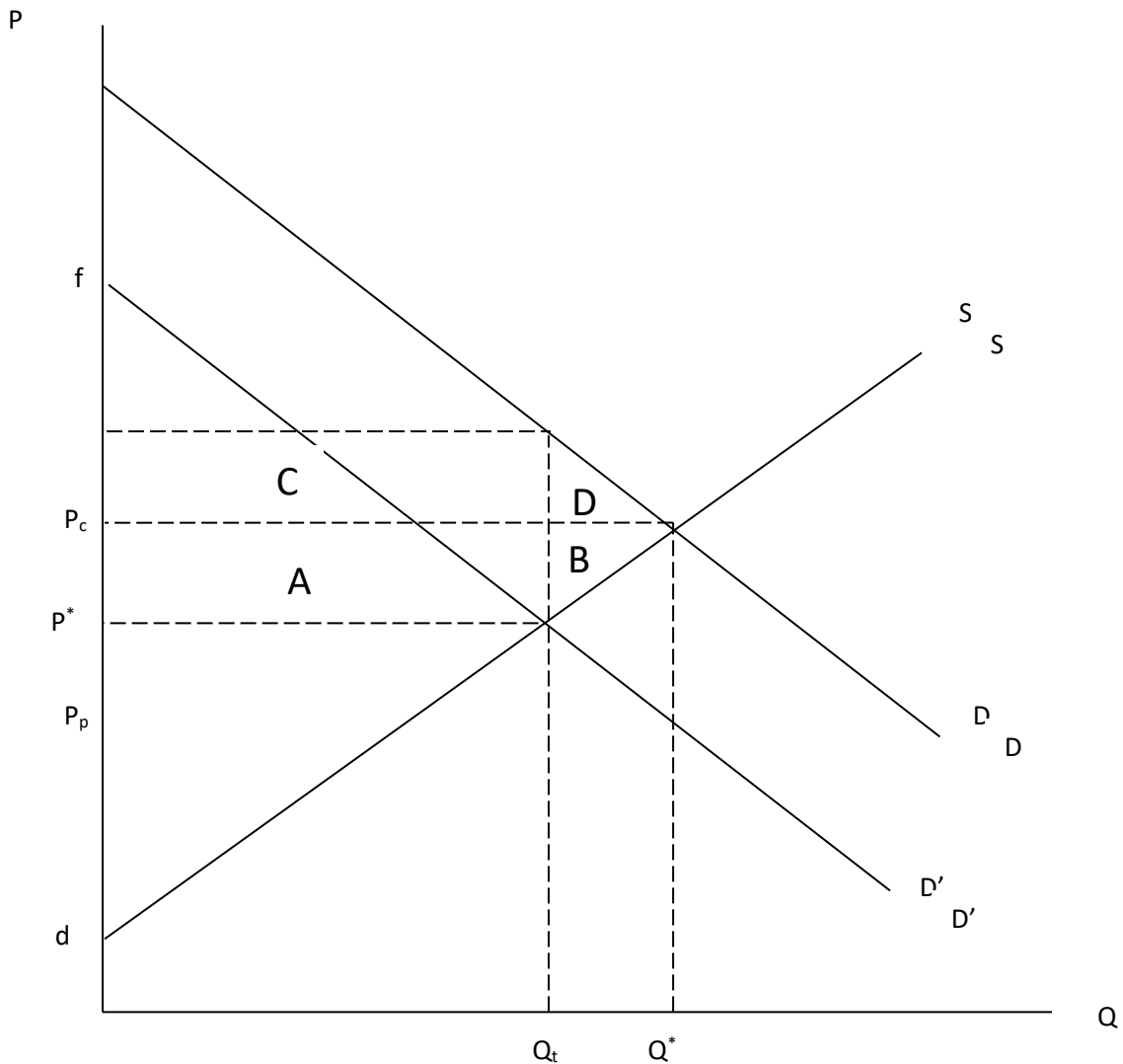
Quiz #3 (answers)
 ECNS 432
 Spring 2020

Name _____

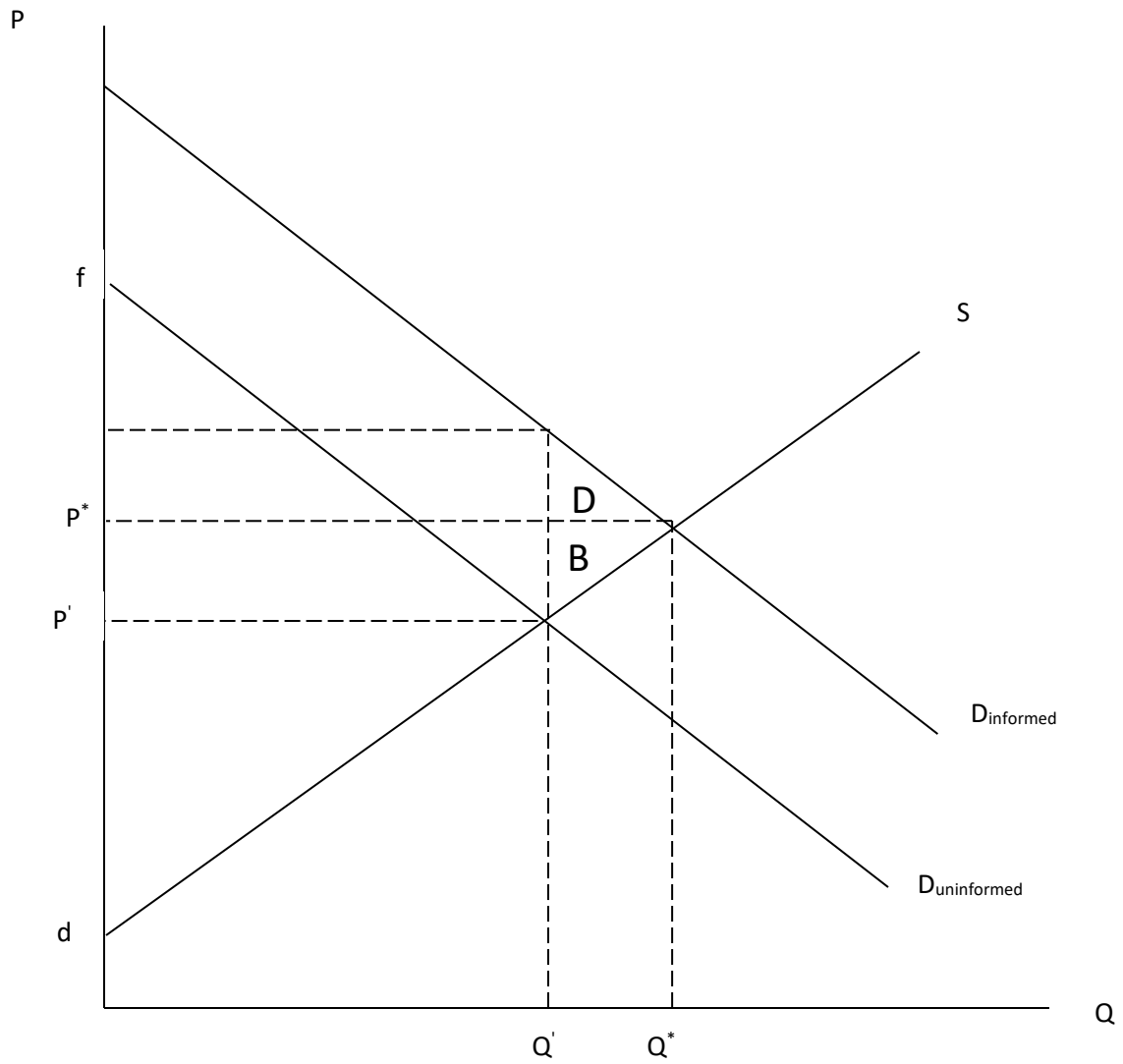
1.) (12 points) Suppose we have an efficiently operating market for video game consoles. Recent research has shown that video game players are much more likely to become out of shape. In an effort to promote fitness, the government has decided to impose a per unit tax on consumers in this market.

Graphically illustrate the following (make sure to LABEL your graph!!!!):

- a.) Change in consumer surplus due to the tax $-(C+D)$
- b.) Change in producer surplus due to the tax $-(A+B)$
- c.) Change in government surplus due to the tax (hint: you can think of this as the change in government revenue) $(A+C)$
- d.) Total welfare change $-(B+D)$ (i.e. DWL)



2.) (8 points) Consider a market with asymmetric information. More specifically, suppose consumers *overestimate* the risks associated with consumption of a particular good. Illustrate this situation graphically and show the dead weight loss in this market.



DWL = D + B