

Quiz #2 (answers)
ECNS 432
Spring 2021

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 ($D \rightarrow D'$).

Answer the following questions in terms of the labeled areas on the graph below (i.e., areas A, B, C, and D). Note: Make sure to indicate whether the change in surplus is positive or negative.

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

