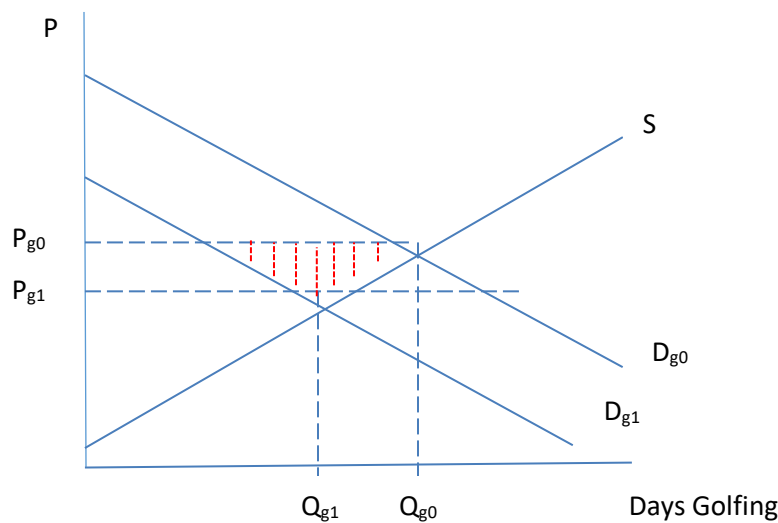


Quiz #5 (answer key)
ECNS 432
Spring 2021

_____ Name

Recall our example from class where a nearby lake is stocked with fish effectively lowering the cost of fishing access for city residents.

1.) (5 points) What happens in the secondary market for golf when the lake is stocked?



Demand for golfing days shifts inward.

2.) (5 points) Are golfers made worse off by the stocking of the lake? Why or why not?

The net loss in social surplus is the red highlighted area. While golfers are not made worse off by the stocking of the lake, there is a decrease in producer surplus that amounts to social surplus being negative on net.

3.) (5 points) In practice, the prices and quantities we observe are those reflected by the “observed” demand curve (which we labeled D*). Why is this?

In practice, it is difficult to hold “all other factors constant.” In the real world, we simply observe prices and quantities in the market in question after prices in all other markets have adjusted.