Solutions

Each answer shows the steps, then the **result**.

2.1

- where marginal social benefit equals marginal social cost

2.2

- an outcome in which the market fails to allocate resources efficiently

2.3

- market power leads to producing where $P > MC$ (underproduction), so some beneficial trades are lost — a deadweight loss

3.1 B

3.2 B

3.3

(a)

- it falls

(b)

- a deadweight loss

(c)

- yes