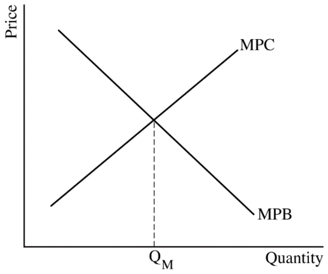
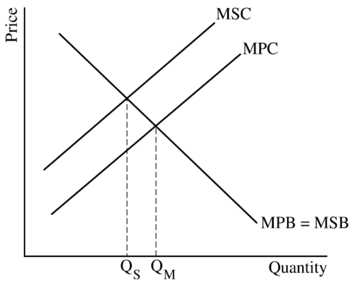
Question 2: Short — 5 points

(a) Draw a correctly labeled graph with an upward-sloping supply curve labeled MPC, a downward-sloping demand curve labeled MPB, and the market equilibrium quantity labeled Q_M. **1 point**

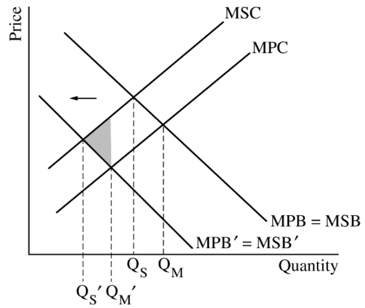


For the second point, the graph must include the MSC curve above the MPC curve at all output levels and must show the socially efficient quantity labeled Q_S. **1 point**



Total for part (a) 2 points

(b) On your graph from part (a), show a leftward shift of the demand curve and shade completely the area of deadweight loss at the new market equilibrium. **1 point**



(c) (i) State that the per-unit tax would be equal to the marginal external cost (MSC−MPC). **1 point**

(ii) Explain that the lump-sum tax will not change the quantity produced because it does not affect the marginal cost. **1 point**

Total for part (c) 2 points

Total for question 2 5 points