Teacher Answer Key

Case Study

1. The factory never pays for the damage it dumps on everyone else, so its goods look cheaper than they really are and it makes too many of them.

2. A pollution tax or a legal limit makes the company pay for or cut its own mess, which pushes it toward cleaner equipment.

Multiple Choice

1. A

2. D

3. C

Matching

1-B, 2-D, 3-E, 4-C, 5-A

Fill-in-the-Blank

1) inefficient, 2) pollution, 3) information asymmetry

Short Answer (Sample Responses)

Q1: Information asymmetry leads to consumers making poor purchasing decisions because they don't have all the necessary information, leading to market inefficiencies.

Q2: Public goods are underproduced because firms cannot exclude people from using them and thus cannot charge individuals for their use, resulting in little incentive for private companies to provide them.

Q3: Pollution taxes help by forcing businesses to internalize the costs of their negative externalities, making them pay for the social costs their activities impose on society.