Teacher Answer Key

Case Study

1. Deadweight loss = $5 million, arising from 20 million fewer cans traded × half the tax ($0.25).

2. Estimated $10 million health benefits offset some welfare loss, improving net social welfare.

Multiple Choice

1. D

2. B

3. C

Matching

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

Fill-in-the-Blank

1) upward, 2) Deadweight, 3) above, below

Short Answer (Sample Responses)

Q1: The tax raises costs, reducing net price producers receive and shrinking the area above marginal cost.

Q2: The tax reduced consumer and producer surplus but produced healthcare savings valued at $10 million.

Q3: A subsidy lowers prices and expands trade (increasing surplus), while a tax raises prices and contracts trade (creating deadweight loss).