

ARE 201

Name KEY

Lab #6

Complete the sentence

List five of the six potential functions of government in a market economy:

1. public safety
2. anti-trust
3. addressing externalities **Other: regulation of choice**
4. providing public goods
5. income redistribution
6. Anti-trust is the government function of enforcing laws against collusive oligopolies and unfair trade practices by businesses.
7. The result of an action by a producer or consumer that has a negative impact (cost) on others is called a negative externality.
8. If negotiation is not possible or fails, the direct economic approach to dealing with the action in #7 is to tax (or price) the action.
9. The result of an action by a producer or consumer that has a positive impact (benefit) on others is called a positive externality.
10. The direct economic approach to dealing with the action in #9 is to subsidize the action.
11. If there are only a few number of people involved with a negative externality, then negotiation, rather than government intervention, is a likely solution.
12. The economic approach to addressing the air pollution created when vehicles are used is to add a tax (or fee or price) to the price of driving that approximates the cost of the pollution.

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13. Opponents of phosphate detergents considered the environmental costs of phosphates released to the water system. They did not consider the **_benefit_** from phosphate detergents in cleaning clothes and other apparel items.
14. The economic approach to recognizing the benefits to all citizens from an individual attaining a college degree is to **_subsidize_** the cost of a college education.
15. One modern approach to pollution control is for the government to set the acceptable level of aggregate pollution and then sell pollution **_permits_** that collectively equal the aggregate amount.