

3. (15 points) True or False? Price discrimination always results in greater consumer surplus. Explain with graphs.

4. (5 points) Which of the following statements is false?

- (a) Because of wage and price controls, employers started offering health insurance benefits during World War II.
- (b) The tax system lowers the relative price of health insurance with respect to other consumer goods.
- (c) Economies of scale may allow employers to purchase insurance at a lower price than individual consumers.
- (d) High marginal tax rates discourage the purchase of expensive health insurance plans.

5. (15 points) Explain in words and show graphically how each of the following reduce moral hazard.

(a) a deductible

(b) coinsurance

6. (10 points) Why don't some people who are eligible for Medicaid enroll in the program? Why is 'take-up' potentially good for the (state and federal) government's budget?

7. (10 points) Using the table below depicting the costs and revenues at various stages in the life of a new drug. Assuming that the discount rate is 10%, calculate whether it is worthwhile for the firm to develop this drug?

Period	Research & Devt		Patent Protection		Patent Expired	
	1	2	3	4	5	6
Cost	150	200	10	10	10	10
Revenue	0	0	200	150	100	50

8. (15 points) Production of commodity X creates 10 pounds of emissions for every unit of X produced. The demand and supply curves for X are described by the following table:

<u>Price (\$)</u>	<u>Quantity Demanded</u>	<u>Quantity Supplied</u>
10	80	100
9	85	95
8	90	90
7	95	85
6	100	80
5	105	75

- (a) What is the equilibrium price and quantity, and how much pollution will be emitted?
- (b) What tax rate should be chosen to reduce emissions by 50 pounds? Show this in a diagram.