FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING ECONOMICS AND FINANCE

QUALIFICATION :	BACHELOR OF ECONOMICS HONOURS DEGREE	
QUALIFICATION CODE: 08HECO	LEVEL:	8
COURSE CODE: ENE820S	COURSE NAME: ENVIRONMENTAL ECONOMICS	
SESSION: January 2019	PAPER:	THEORY
DURATION: 3 HOURS	MARKS:	100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER (S)	Prof. Tafirenyika Sunde
MODERATOR:	Mr Gerson Kampungu

INSTRUCTIONS
1. Answer ALL the questions.
2. Write clearly and neatly.
3. Number the answers clearly.

PERMISSIBLE MATERIALS

   1. Ruler
   2. Calculator

THIS QUESTION PAPER CONSISTS OF 3 PAGES

QUESTION 1 [25 MARKS]

1.1   Explain the meaning and importance of economic surplus?   [5]

1.2   Using examples, explain the difference between positive externalities and negative externalities (No graph).   [5]

1.3   Discuss why the positive externalities result in under-production and negative externalities result in over-production of the good.   [5]

1.4   What policies can be utilized to ensure that the socially optimal amounts of the good are produced in each case in question 1.3.   [5]

1.5   What is the Coase theorem? Explain how the theorem could be used to resolve a conflict between a factory that pollutes a river and a fishing business downstream from the factory whose catch rates are reduced by the pollution.   [5]

QUESTION 2 [25 MARKS]

Use the simple algebraic information given below which is based on externalities to answer the following questions:

Demand: $P = 50 - Q = MB$

Supply: $P = 5 + 0.25Q = MPC$

(a) Find the equilibrium price and quantity and illustrate graphically.   [5]

(b) Suppose $MC_E = Q$. What happens to the marginal external cost (the marginal increase in damages from pollution) as more of the good is produced?   [5]

(c) Find the marginal social cost $MC_S = MC_P + MC_E$.   [5]

(d) Find the socially optimal equilibrium price and quantity.   [5]

(e) Which area on the graph represents the net gain from moving to the socially optimal equilibrium point?   [5]

QUESTION 3 [25 marks]

Write short notes on the following concepts: (a)   Contingent valuation,   [7]
                                                                                       (b)   Travel cost method, and,   [7]
                                                                                      (c)   Hedonic pricing method.   [7]
                                                                                      (d)   Open access resources   [4]

QUESTION 4 [25 marks]

Discuss in detail the two sources of misallocation in the world gas and oil sector?