1. (15 points) A friend of yours makes the following statement: “Economists are primarily concerned with increasing the overall level of economic activity, not improving the quality of the environment. Economists are generally not environmentalists. Whenever there is a choice between improving environmental quality and increasing economic activity, economists will always prefer increasing economic activity.” How would you respond to this statement? Support your response with material from the class readings. (As a rough guide, your answer should be about one to two double-spaced pages.)

2. (15 points) Another friend of yours says: “The price of gas has become way too expensive recently. The government should give consumers a break by reducing gas taxes.” Would you agree with your friend? Why or why not? Make sure to include a discussion of externalities in your response. Also, you might want to find out what are the current taxes on gasoline and perhaps search for a few online articles on the issue of gas taxes. (Please provide a reference for any material you use. Again, about one to two double-spaced pages should be sufficient.)

3. (14 points) Problem #1 for Chapter 3 (page 61). On your graph show the equilibrium prices and quantities numerically. Also, discuss at least two types of policies to achieve the social equilibrium.

4. (14 points) Problem #2 for Chapter 3 (Pages 61-62). Make sure you include a graph in your answer.

5. (14 points) (Refer to Chapter 4 to answer this question.) Farmers in an arid region of Mexico draw their irrigation water from a small underground aquifer. The total product schedule based on the number of wells operating is given as:

<table>
<thead>
<tr>
<th>Wells Operating</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Water Output (liters/day)</td>
<td>400</td>
<td>800</td>
<td>1200</td>
<td>1600</td>
<td>1950</td>
<td>2250</td>
<td>2500</td>
<td>2700</td>
<td>2850</td>
<td>2950</td>
<td>3000</td>
<td>2900</td>
<td>2700</td>
</tr>
</tbody>
</table>

a) Assume that water is worth 3 pesos per liter. Calculate the total and marginal revenue for each level of water output.

b) Next, assume that it costs 700 pesos per day to operate a well and that the operation of wells is unregulated. How many wells will operate at the open-access equilibrium?

c) What would be the socially efficient number of wells? Explain why.
d) Suppose the local government decides to charge a fee for the operation of wells. What would be the minimum and maximum fee (in pesos) that would be necessary in order to reach the socially efficient equilibrium?

6. (14 points) Problem #1 for Chapter 5 (page 104)

7. (14 points) Problem #2 for Chapter 5 (page 104)