

1. Use a supply and demand diagram to show a labor market with a binding minimum wage. Use the diagram to identify those who are helped by the minimum wage and those who are hurt by the minimum wage.
2. Use a supply and demand diagram to show the effect a \$300 price ceiling would have on the market for ten-speed bicycles. Would this be a binding price ceiling?
3. Identify and explain three reasons why the price control defined in #1 causes market failure.
4. Use the demand and supply model to illustrate the market for education. Your graph should show all external and private costs and benefits. Explain why the market equilibrium is not efficient. Use the graph to show the optimal level of production.
5. The overuse of antibiotics can lead to the evolution of drug resistant diseases. Use the demand and supply model to illustrate the market for antibiotics. Your graph should show all external and private costs and benefits. Explain why the market equilibrium is not efficient. Use the graph to show the optimal level of production.
6. Identify and explain three policies the government can enact to address the market failure associated with the production of antibiotics.
7. The creation of knowledge is a public good. Because knowledge is a public good, profit-seeking firms tend to free-ride on the knowledge created by others and, as a result, devote too few resources to the creation of knowledge. How does the U.S. government correct for this apparent market failure?
8. Define common resource. Give an example of a common resource. What economic problem is usually associated with common resources? Identify and explain three things the government can do to address the market failure caused by a common resource.