Answers to Questions for Review

13.1 The government could use emissions taxes, tradable emission permits, and—if only a few parties are involved—establishing clear property rights and encouraging negotiation.

13.2 The only possibility is establishing clear property rights and encouraging negotiation, but this works only if the number of parties involved is small.

13.3 The problem lies in the fact that a public good is non-excludable, so firms would have to rely on voluntary donations, and many consumers might prefer free-riding to making donations.

13.4 (a) It is efficient for extra boats to go out so long as the MSB exceeds the MSC. The MSC is now £1,500, so it efficient to send out only two boats, not the third whose MSB is £1,300.
   
   (b) The actual number will be four: the benefit for the crew of the fifth, £1,300, no longer exceeds the cost which is now £1,500.
   
   (c) The actual yield with four boats will be £6,400, just under the maximum sustainable yield which remains unaltered at £6,500.

13.5 The median voter theorem says that the best strategy is to set each policy at the preference of the median voter for that policy. So the theorem predicts that all parties which hope to win will have a similar raft of policies. If they have different policies, then the winner should be the party whose policies on the most important issues come closest to the preferences of the median voters on those issues.