

1. Why do economists emphasize efficiency as an important goal of public policy?

They emphasize efficiency to make everyone happy. They distribute the wealth to do something efficient for the rest of the people to be happy.

2. You are a senator considering how to vote on a policy that would increase the economic surplus of workers by \$100 million per year but reduce the economic surplus of retirees by \$1 million per year. What additional measure might you combine with the policy to ensure that the overall result is a better outcome for everyone?

Increase the amount of jobs available or offering incentives to companies so they can open up new jobs in the area to increase the revenue.

3. Why does the loss in total economic surplus directly experienced by participants in the market for a good that is taxed overstate the overall loss in economic surplus that results from the tax?

The economic loss in surplus is contributed towards tax revenue, which may be used for funding or subsidies in some other market.

4. Why is compensating volunteers to relinquish their seats on overbooked flights more efficient than a policy of first-come, first-served?

Overbooking flights is a way to secure a good amount of passengers and for those who get bumped get paid. Both parties win.

5. Why do price ceilings reduce economic surplus?

Price ceilings mean that a supplier cannot charge more than a certain price for a good. When the amount a supplier charges is higher than its economic costs for producing, it is running an economic surplus. With a price ceiling, the supplier is usually being prevented from charging the amount that maximizes economic profits. This would reduce its economic surplus relative to what it could be without the price ceiling in place.