Economic Rents, Rent Seeking, Public Goods

Multiple Choice (MC) questions usually have only one correct answer, although you may be able to defend different answers. Other kinds of questions often have more than one correct answer. Having good reasons for your answers is more important than what your answer is. If you don't understand the meaning of a question, you may write to your own TF, but do not expect him/her to give you answers. The problem set will not be graded, but the way you discuss the problems in your discussion section will affect your discussion-section participation score. You are allowed to work on the problem sets with other students.

1. On the subject of economic rents:
   i. Do you think that smart people deserve to earn more than people of low intelligence? Can you justify your opinion?
   ii. Cristiano Ronaldo is a superstar soccer play who receives millions of dollars of economic rents. Do these rents come from rent-seeking? Explain.

2. Do the following scenarios describe rent-seeking behavior? Explain each answer.
   i. Your sister is cleaning her room so she can have her favorite dessert for dinner.
   ii. Your sister tells your parents that you are lazy, so you should wash the dishes instead of her.
   iii. You are very kind to your friend because you hope she will keep you company.
   iv. You pretend to listen to your friend’s stories because you hope she’ll keep you company.

3. (MC) Economic rents are
   a. good for equity because they reward people who are not talented.
   b. good for efficiency because they reward people for working hard.
   c. good for efficiency because they attract talent to the firms where talent is more productive.
   d. bad for efficiency because they are not earned by hard work.

4. Discuss whether the following statements about rent-seeking behavior are true or false. Explain each answer.
   i. A landowner installs a chain across a river that flows through his land and then hires a toll collector to charge passing boats a fee to lower the chain. This would be considered rent seeking.
   ii. Rent seeking could lead to poor allocation of resources and reduce economic efficiency.

5. Is the patent obtained by Apple for the newest iPhone’s an example of rent-seeking behavior? Does it increase or reduce social surplus? Discuss and explain your answers.

6. What are the advantages and disadvantages of the following methods of controlling the free-rider problem that public goods have? Explain each of your answers.
   i. taxing the good
   ii. regulating the good to limit its overuse
   iii. letting the government itself provide the good
   iv. educating consumers so they buy the optimal quantity of the good
   v. Which of the preceding methods do you think is best? Why?
7. Is each of the following goods nonexcludable? nonrivalrous? Is the good a public good? a common good? Explain each of your answers.
   i. an idea that has been patented
   ii. streetlights in the public streets of Brookline
   iii. a large museum with beautiful works of art
   iv. a bench in the Boston Common
   v. Manove’s confusing lecture on public goods
   vi. a concert by Twenty-One Pilots in a very large public area

8. Almost all the income received from owning farmland is an economic rent. True or False? Explain carefully.

9. Yinglin is an economics professor. She loves her job, and she would be willing to work as a professor for $40,000 per year. But because she is such a clever researcher, many universities were willing to pay her more than $140,000, and she accepted a position that pays $145,000 per year.
   i. What is Yinglin’s reservation price?
   ii. Does she receive economic rents? If so, how much?
   iii. Why would a university be willing to pay economic rents to Yinglin?

10. Rent-seeking reduces social surplus because
   a. the rent-seeking activity is costly and nonproductive.
   b. rent-seeking reduces the quantity produced.
   c. BOTH a. and b.
   d. NEITHER a. nor b.

11. A healthy young man decides not to buy health insurance, because he almost never gets sick. Then he gets appendicitis, but he cannot afford the surgical treatment.
   i. Should hospitals treat the young man or let him die? Justify your answer.
   ii. What policies can a government adopt to deal with this situation?

12. Explain the “Tragedy of the Commons.”