Name and Student ID: _____

Due 8 Sep 2015. You can turn in these pages or another printed version.

1. (6 points) You go to a bar or restaurant with some other people. Explain when it's "appropriate" for one person to pay for everyone, everyone to split the bill evenly, or for everyone to pay their own bill (three situations). Make sure you discuss interpersonal utility ($u_i(x_1, x_j)$), one-shot vs repeated transactions (the Folk theorem), and free riding.

2. (2 points) A "negative externality" from Mr. A's consumption of a *private good* means that some people (not Mr. A) are harmed. Give an example of such a negative externality, and explain how it may be reduced *without* Mr A consuming any less of the good.

3. (2 points) An "appropriation problem" from Mr. A's consumption of a *common pool good* means that some people (not Mr. A) have less of that good to consume. Give an example of such a problem from your life experience and how it might be overcome, i.e., such that the appropriation problem goes away or affects everyone equally "fairly."