

Problem 6.1

Table 6.7: Experimental Results in Session 1

Mean Price	\$24.68
Number of Lawn Ornaments Sold	19
Total Profits of Sellers from Transactions	\$172.00
Total Profits of Buyers from Transactions	\$181.00
Total Cost of Pollution	\$383.99
Total Profits of All Residents, Net of Pollution Costs	-\$30.99

Problem 6.2

Table 6.8

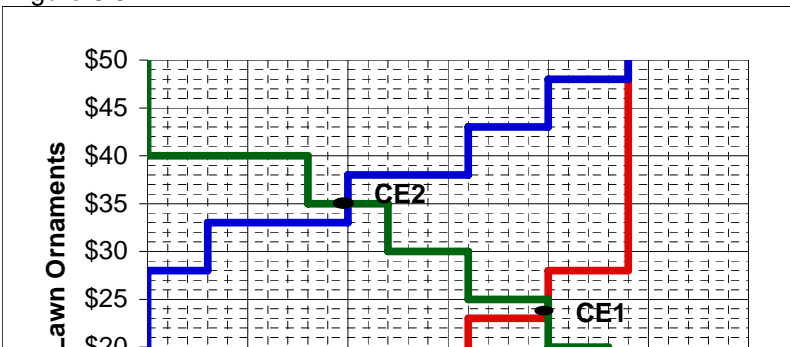
Mean Price	\$34.85
Number of Lawn Ornaments Sold	10
Total After-Tax Profits of Sellers from Transactions	\$18.50
Total Profits of Buyers from Transactions	\$41.50
Total Tax Revenue	\$200.00
Total Cost of Pollution	\$202.10
Total Profits and Tax Revenue of All Residents, Net of Pollution Costs	\$57.90

Problem 6.3

Table 6.9: Experimental Results in Session 3

Mean Price of Ornaments	\$31.27
Mean Price of Permits	\$9.86
Number of Lawn Ornaments Sold	11
Profits of Lawn Ornament Sellers from Transactions	\$72.49
Profits of Lawn Ornament Buyers From Transactions	\$81.00
Total Revenue of Permit Sellers	\$108.51
Total Cost of Pollution	\$222.31
Total Profits of All Residents, Net of Pollution Costs.	\$39.69

Figure 6.5



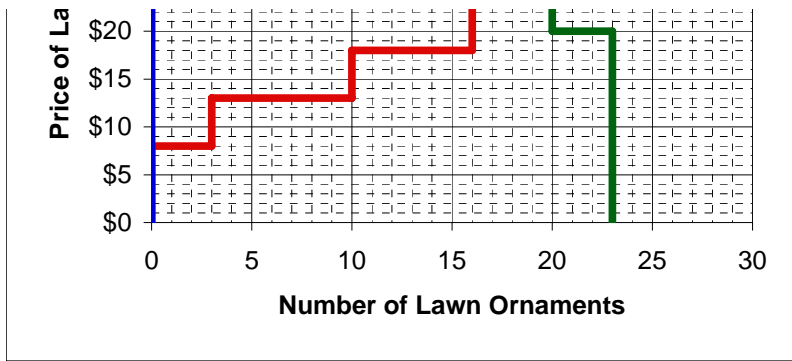


Table 6.10: Predictions of the Theory: Session 1

Mean Price	\$24 *
Number of Lawn Ornaments Sold	20
Total Profits of Sellers from Transactions	\$165.00
Total Profits of Buyers from Transactions	\$200.00
Total Cost of Pollution	\$404.20
Total Profits	-\$39.20

\*The equilibrium price is a range between \$23 and \$25  
I've used \$24 in the calculations.

Problem 6.6

Part a) Shifts the supply curve up by \$20.

Part b) No effect on demand curve.

Problem 6.7

Table 6.11: Predictions of the Theory-Session 2

Mean Price	\$35.00
Number of Ornaments Sold	10
Total Profits of Buyers	\$40.00
Total Profits of Sellers	\$35.00
Total Tax Revenue	\$200.00
Total Cost of Pollution	\$202.10
Total Profits and Tax Revenue of All Residents, Net of Pollution Costs	\$72.90

The total income of all residents is higher when the pollution tax is imposed.

Problem 6.8

Competitive equilibrium prediction for price of ornaments is \$35.00

Competitive equilibrium prediction for quantity of ornaments is 11

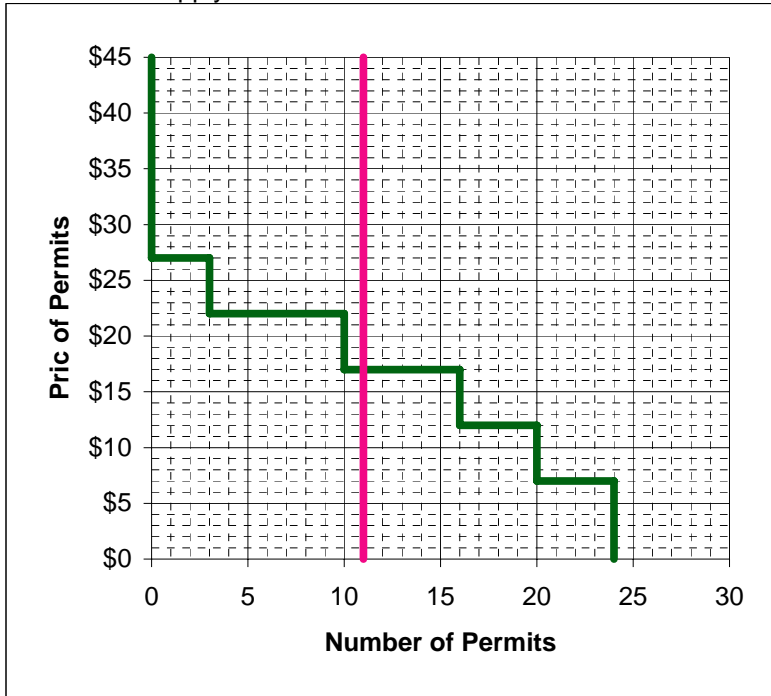
Problem 6.9

Table 6.12: Willingness to Pay for Pollution Permits

Seller Cost	Number in Market	Willingness to Pay for a Permit
8	3	\$27.00
13	7	\$22.00
18	6	\$17.00
23	4	\$12.00
28	4	\$7.00

Problem 6.10

Table 6.6: Supply and Demand for Permits.



These curves intersect where the price of permits is \$17