

**Microeconomics and Policy Analysis**  
**Comprehensive Exam**  
**Spring 2004**

*Answer all of the following questions.*

*Write your answers as brief essays that address the questions raised.*

*Your response will be evaluated on the basis of the extent to which you*

- *present a coherent, economic argument; and*
- *draw on relevant concepts and tools of microeconomic analysis.*

*I urge you to use graphs and mathematics to the fullest extent possible for making your arguments, to clearly label graphs, and to explain the notation you use.*

1. Assume a scheduled meeting only starts when all participants are present. Should those individuals who are late be charged for their lateness? If so, how much, and who should receive the revenues? (In your answer, draw on insights from consumer choice theory, consider asymmetric information among the participants, and reflect on the implementability of your solution, and the associated transaction costs.)
2. The US regularly sees thousands of its citizens crossing the borders to Canada to purchase (US-produced) prescription drugs in Canada at prices lower than in the US. Price differences for drugs from the US and Canada, in part, are caused by differences in government regulations and subsidies.
  - a. Explore the potential impacts of drug re-import on
    - i. US and Canadian drug prices;
    - ii. Consumer surplus in the US and Canada; and
    - iii. Producer surplus in the US and Canada.
  - b. On economic efficiency grounds, should the US restrict drug re-import? Should Canada promote drug export? Explain.
3. To address concerns about lack in airport security, the US has brought security services, which were previously provided by private companies, under the auspices and supervision of the federal government.
  - a. Can the move from private to public service provision be justified on the basis of economic efficiency grounds?
  - b. What is the economically optimal level of airport security, and what is its corresponding “price”?
4. Briefly describe how technological change may be reflected in a standard production function.  
Describe the role of physical laws, vintage effects, and principal-agent problems in constraining technological change.