

ECON 342: Final Exam Review

I. Multiple Choice

1. U.S. government-imposed price ceilings on natural gas _____.
 - a. kept the economy from becoming more reliant upon cars for transportation
 - b. kept natural gas from replacing coal as an energy source
 - c. helped producers to make a profit
 - d. caused shortages of natural gas

2. Which of the following is NOT a short-term concern about hydraulic fracturing (fracking)?
 - a. Water contamination
 - b. Decreased U.S. dependency on oil imports
 - c. Water depletion
 - d. Air quality

3. OPEC (Organization of Petroleum Exporting Countries) _____.
 - a. is primarily concerned with keeping prices as high as possible
 - b. is primarily concerned with keeping costs as low as possible
 - c. is primarily concerned with production quantity and prices
 - d. is primarily concerned with the free trade of oil

4. In addition to paying the world price, a nation must consider a _____ that reflects the additional national security costs caused by imports of strategic resources.
 - a. vulnerability premium
 - b. scarcity rent
 - c. marginal user cost
 - d. tariff

5. Which of the following is correct?
 - a. Despite the availability of alternatives, unconventional oil, coal, and uranium are still abundantly used in the world today.
 - b. The scarcity of coal means that few countries use it today.
 - c. Technology advances will not lead to a change in the amount of uranium used.
 - d. Technology is not available to deal with the emissions of CO₂ from coal.

6. The efficient allocation of water depends crucially on
 - a. whether surface water or groundwater is being tapped
 - b. the time of year the water is being tapped
 - c. the uses of the water
 - d. whether freshwater or salt water is being tapped

7. The right of use to a water source that is not an ownership right is called _____.
 - a. riparian rights
 - b. usufructuary rights

- c. prior appropriation doctrine
 - d. governmental rights
8. With a well-structured system of water property rights, efficiency can be a direct result of _____.
- a. agricultural water pricing
 - b. the transferability of the water property rights
 - c. Federal Reclamation Projects
 - d. municipal and industrial water pricing
9. Which of the following is correct?
- a. "Preferential use" attempts to establish a hierarchy of uses.
 - b. Diminishing transferability of water property rights increases the market pressures toward equalization of the marginal net benefits.
 - c. The existing system of prior appropriation rights and federal and state laws increases the degree of transferability of water property rights.
 - d. "Beneficial use" applies to instream consumptive uses.
10. Potential efficient remedies to the current water situation include all of the following except _____.
- a. reductions in the number of restrictions on water transfers
 - b. water markets and water banks
 - c. stricter federal and state government regulation on water usage
 - d. new systems of charging by water utility companies
11. Land matters in an absolute sense because _____ and in a relative sense because _____.
- a. people want land; people are willing to pay for land
 - b. the land's location indirectly affects its value; the value of any particular piece of land is also affected by the uses of the land around it
 - c. the land's location directly affects its value; the value of any particular piece of land is not affected by the uses of the land around it
 - d. the land's location directly affects its value; the value of any particular piece of land is also affected by the uses of the land around it
12. Bid rent functions _____.
- a. record the distance to the center of town or urban area
 - b. record the net benefits per acre received from each type of land use
 - c. convey the maximum net benefit per acre that could be achieved by that land use as a function of the distance from the center of an urban area
 - d. convey the maximum net benefit per acre that could be achieved by that land use as a function of the distance from the rural area
13. Relative decreases in the bid rent function for agriculture could result from _____.
- a. domestic population growth that increases the domestic demand for food
 - b. closing of export markets for agriculture that decrease the foreign demand for local crops

- c. shifts from subsistence crops to cash crops for exports, thereby increasing the profit per acre
 - d. lower agricultural transport costs due to the building of new roads into forested land
14. Which of the following is NOT correct?
- a. Urban sprawl occurs when land uses in a particular area are inefficiently dispersed.
 - b. Leapfrogging occurs when new development continues not on the very edge of the current development, but further out.
 - c. Public infrastructure problems can result from leapfrogging.
 - d. Leapfrogging occurs when new development continues on the very edge of the current development.
15. The choice to preserve agricultural land or sell it to a developer is biased toward development by each of the following EXCEPT
- a. Zoning
 - b. property taxes
 - c. undervaluing environmental amenities
 - d. increased public awareness of the benefits of conservation
16. The eminent domain doctrine means _____.
- a. the government can legally acquire private property for a "public purpose" by condemnation as long as the landowner is paid "just compensation"
 - b. the transaction of selling land is voluntary and the landowner can refuse to sell
 - c. the transaction of selling land provides a "fair" market-determined price
 - d. the specifics of the selling of land are determined by agreement of both the public and private parties
17. Special property rights problems in developing countries involve all of the following except _____.
- a. insecure property rights
 - b. the poverty problem
 - c. too many financial markets
 - d. government failure
18. Establishing property rights can decrease market inefficiencies by
- a. allowing the government to dictate who owns the land
 - b. avoiding the problems of over-exploitation of land
 - c. making zoning easier
 - d. decreasing property taxes
19. Which provides the correct definition?
- a. Wetlands banking's goal is to offset adverse impacts to a specific species.

- b. Conservation banking is a means of conserving endangered and threatened species on privately owned land.
 - c. Grazing rights mean farmers are allowed to graze their livestock on public lands if issued a grazing permit.
 - d. Safe harbor agreements are legal agreements between landowners and private or public agencies that limit the uses of land in order to protect its conservation values.
20. Which of the following is NOT a part of the Transferable Development Rights (TDRs) system used to increase the efficiency of land preservation?
- a. Local governments identify sending areas and receiving areas.
 - b. Landowners in sending areas must buy development rights from landowners in receiving areas.
 - c. Landowners in sending areas are allocated development rights depending upon the number and quality of development sites available on the property.
 - d. Landowners in receiving areas must buy development rights from landowners in sending areas.
21. What are ecosystem goods and services?
- a. Ecosystem goods and services are goods and services that are supplied by ecosystems and directly benefit the wildlife population in an area.
 - b. Ecosystem goods and services are goods and services produced by companies that are “ecologically friendly.”
 - c. Ecosystem goods and services are goods and services that are supplied by ecosystems and directly benefit at least one person.
 - d. Ecosystem goods and services are goods and services that are supplied by ecosystems and directly benefit at least one percent of the human population.
22. Which of the following is NOT one of the categories into which the Millennium Ecosystem Assessment (MA) divides ecosystem services?
- a. Provisioning services provide direct benefits
 - b. Cultural services provide recreational, aesthetic, and spiritual benefits
 - c. Value-added services that provide opportunities for a site to get on the UNESCO world heritage list
 - d. Supporting services

II. Questions:

- With the aid of a graph, explain why importing oil is preferred to self-sufficiency, despite the threat of embargos and the cost of foreign dependence on oil.
- How would the optimal level of oil imports and price level be affected if a country acted to internalize national security issues, but ignored climate change impacts? Discuss it with a graph.
- Discuss (with graph) the efficient allocations for surface and groundwater. Why are they different?

- How can water trading markets lead to efficiency in water allocations?
- With the aid of a graph, explain efficient conversion of wilderness land into agricultural land. Under what circumstances might this conversion be efficient?

III. Define and Explain (Could also come as a multiple-choice problem):

- Prior appropriation doctrine
- Riparian rights
- Usufructuray rights
- Eminent domain doctrine
- Transferable Development Rights
- Conservation Easements
- Ecosystem Services
- Wetlands Banking
- Carbon Sequestration Credits

IV. Group Presentation (It could be short answer questions or multiple-choice questions. You don't need to know the entire paper, but you should understand basic concepts like:)

- What is the idea behind non-market valuation?
- Pecuniary externality with example.
- What is the idea behind payment for ecosystem services?
- Why have environmental policies not been as effective?
- Problems with subsidies in the fossil fuel and/or agricultural sector. Benefits of subsidies in the renewable sector.
- Issues with open access resources like fisheries.
- Link between land policy and poverty in Colombia.
- How can lack of property rights result in mismanagement of land?
- How can we make land holding more decentralized in developing nations?
- Main difference between revealed and stated preference methods.
- Examples of economic instruments that can reduce environmental problems like air pollution.
- Treatment v/s control group.
- What is the problem with surveying people in areas like mall/coffee shops etc.?
- Zero discount rate in cost benefit analysis. What does it mean?
- What could have been done to reduce the negative externalities in the case of the 1991 California water markets?

All the questions in section IV are things that we discussed in the class as well as the group presentations.