

Midterm Examination

The purpose of this examination is to test your mastery of the conceptual foundations of policy analysis—especially market and government failures. Please write clear and concise answers that show your understanding of basic concepts.

1. (20 points) Consider any *one* of the four traditional market failures.
 - a. Illustrate with a simple diagram the social surplus loss associated with the market failure. Be sure the diagram is fully and clearly labeled in terms of quantities, prices, and relevant areas. Neatness counts here!
 - b. Discuss a circumstance in which a non-governmental response might arise over time to mitigate to some extent the inefficiency resulting from this market failure.

2. (30 points) Briefly define *and* give the significance of each of the following for understanding public policy:
 - a. Moral hazard
 - b. Rent seeking
 - c. Pure public good
 - d. Negative externality
 - e. Experience good
 - f. X-Inefficiency

3. (20 points) An analyst has produced a report that she believes meets professional standards in reaching its recommendation. Her superior has instructed her to change the report to support an alternative recommendation that the analyst believes is unjustified. Discuss some of the most important factors she should consider in deciding her ethical responsibilities in responding to the supervisor.

4. (30 points) The Republic of Freedonia has a large number of people waiting for organ transplants from the almost one-hundred hospitals that recover cadaveric organs and transplant them. Under current regulations, all donated cadaveric organs are allocated to patients with the highest priority on the national waiting list. To harvest organs, hospitals must invest resources in the intensive care of brain-dead donors and the timely removal of organs. A recent study found that, although most families approve organ donation from their loved ones who have suffered brain death, the recovery rate of organs from deceased donors is well below the rates in neighboring countries.

a. Taking the legal prohibition against buying and selling organs in Freedonia as unchangeable, provide a framing of the problem of the low recovery rate of willing donations. Choose a framing that will be useful in developing policy alternatives for addressing the problem. Clearly explain the framing and its application to the problem.

b. Sketch two policy alternatives suggested by the framing. Your alternatives should be substantially differ from each other in approach.


