

Economics 33530: Assignment 2 (due Friday, October 5)

Professor Jensen

Fall 2007

Suppose the travel cost demand curve for recreation (e.g., boating, water-skiing, wind-surfing, fishing) on Lake Looney is

$$MPB = 180 - 5Q,$$

where MPB is the “revealed travel cost” and Q is the number of trips per year. The county government is considering a clean-up program that will increase the travel cost demand for recreation on Lake Looney to

$$MPB_{\text{new}} = 280 - 5Q.$$

Assume the average travel cost paid by someone visiting the lake is \$100.

1. If the cost of this program is \$5,000, should the government undertake it? Explain why or why not?
2. If the cost of this program is \$2,000, should the government undertake it? Explain why or why not?
3. What is the lowest clean-up cost at which this program is feasible? Explain your answer.
4. How would you finance the clean-up program, keeping in mind that you must balance the budget (i.e., find a source of revenue to pay the cost)? Explain why you chose this method.