

Problem Set/Review 2

Do it Yourself Demand Revelation

This problem set is designed to expand upon material discussed in class. Don't be disheartened if you have trouble solving these problems; Not all material has been covered in class. This problem set is a mixture of refreshing and stretching. On the one hand, it should reinforce concepts learned in class, and on the other hand, it should also teach you something new.

1) Calculate the Clark Taxes for the stakeholders in the following diagram:

Person	Cost Share	Value	Net Value	Clarke Tax
A (John)	100	50	-50	?
B (Henry)	100	50	-50	?
C (Mary)	100	250	250	?
Total	300	350	150	?

**This diagram is adapted from Ed Clarke's Public Goods home page*

The following example is adapted from Ed Clarke's superb essay titled "Incentive Compatible Planning and Budgeting of 'Distributive' Federal Programs."

	Status Quo	New Policy	Clarke Tax
A	\$60	0	\$50
B		\$50	0

Assume there are 435 districts. Only district A has a \$60 benefit from a prevailing policy. All other districts including district B have a net benefit of \$50.

Table 1.1

2) What is Thompson Insurance? How does it work? Why is it important?

3) Under Thompson Insurance, what would happen in the example above?
(Table 1.1)