

Quiz 2

(5 points)

Time: 22 September 2021 at 15:00-15:30 (30 minutes)

There are 2 questions. You need to answer all two questions. Please **submit** your answers in a PDF file with a file name “**Quiz2_StudentID_FirstName Surname**” via BE Moodle class before **15:40**.

Write a paragraph to answer two questions below:

Question 1: What are the problems in water resource management? (2.5 points)

Question 2: What could be a source of inefficient allocation of land? (2.5 points)

Question 1: What are the problems in water resource management? (2.5 points)

- **Water scarcity** → when we share water resource with neighbouring countries (same river, ocean), so some time it will not enough for used.
- **Drinking water** → People can not receive enough for safe drinking water → cause in health.
- **Water stress** → Demand for water is more than supply of water, meaning that total freshwater for people is more than water that is available. So, higher stress level means that country has high risk of facing water scarcity.
- **Subsidy** →
subsidy might go to the water use sectors that not the high value sector and sometime the cost of subsidy may higher than the benefit.
- **Restrictions on Transfers**
↳ people with lower marginal net benefits can not trade their to those who would receive higher benefit.
↳ diminished the degree of transferability!
- **Municipal and industrial water pricing**
↳ Since water price is very low because water is essential. The price is lower than marginal cost of providing water. When marginal scarcity rent or social optimal cost is ignored, it will be affect in the future → inefficiency

Question 2: What could be a source of inefficient allocation of land? (2.5 points)

- Insecure property rights

- ↳ there are some land that anyone can occupy → poorly enforced property rights.
- Result in opportunity cost → other use of land may benefit more in social.
 - ↳ when anyone can occupy the land, it will not be allocated which is based on the highest value use.
- First occupier will use the land without what would be the best for society
 - ↳ use for their own benefits.

- Undervaluing environmental amenities

- ↳ Some land may have positive externalities → ex. use to a large farm, it will create beneficial to ecosystem / beautiful views.
- However, people who enjoy the benefit from a large farm, they don't need to pay for it.
- So, the value of the farm is under value → it does not include the benefit to other people.

- Incompatible land use

- ↳ Negative externalities have not been considered by private firm (land's owner).
 - ↳ private net marginal cost is lower than the social net marginal cost.