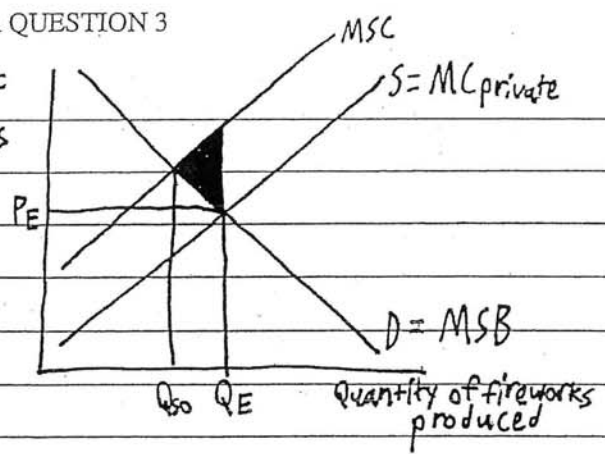


ANSWER PAGE FOR QUESTION 3

a) Price of fireworks



b) see graph

c) i. In this case, market equilibrium quantity of fireworks is less than socially optimal quantity because it is an external benefit, as the neighbors enjoy them. Therefore $MSB > MSC$, so equilibrium is less than socially optimal.

ii. If the government bans fireworks, no fireworks are sold, so market equilibrium quantity is ~~even further~~ further from socially optimal quantity, so deadweight loss increases.

GO ON TO THE NEXT PAGE.