

**Practical Session VI**

**POLITICAL ECONOMY**

Questions and Problems

1. The preference revelation problem associated with Lindahl pricing becomes more severe as the number of people in society increases. Why do you think this is true?
2. Alfie, Bill, and Coco each value police protection differently. Alfie's demand for the public good is  $Q = 55 - 5P$ , Bill's demand is  $Q = 80 - 4P$ , and Coco's demand is  $Q = 100 - 10P$ . If the marginal cost of providing police protection is \$13.50, what is the socially optimal level of police provision? Under Lindahl pricing, what share of the tax burden would each of the three people pay?
3. Carrboro has three equal-sized groups of people: (1) type A people consistently prefer more police protection to less; (2) type B people prefer high levels of police protection to low levels and they prefer low levels to medium levels; (3) type C people prefer medium levels to low levels, which they in turn prefer by a modest amount to high levels.
  - a) Which types of people have single-peaked preferences?
  - b) Will majority voting generate consistent outcomes in this case? Why or why not?
4. A problem with the median voter outcome is that it does not take into account intensity of preferences and may thus contradict social efficiency. Do you agree? Why or why not?