

CHAPTER
3

Property Rights and Economic Efficiency

Multiple-Choice Questions

1. A property right _____.
a. gives the owner the right to do whatever she pleases with the property
b. applies to homes and cars, but not to other types of property
c. does not free an individual from related obligations
d. is limited by a person's ability to protect it from predators

Difficulty: Hard

Answer: c

Section and/or page number: Property Rights, p. 47

2. A property right _____.
a. entails responsibility
b. means you can burn trash in your yard whenever you want
c. is absolute
d. is completely different than the right to free speech

Difficulty: Easy

Answer: a

Section and/or page number: Property Rights, p. 47

3. The key to reaching a Pareto optimum through mutually beneficial exchange _____.
a. is to remove barriers to international trade
b. is to establish property rights for valuable resources
c. is to provide start-up capital to fledgling entrepreneurs
d. is to encourage people to use online auction services

Difficulty: Easy

Answer: b

Section and/or page number: Property Rights, p. 48.

4. Poorly defined property rights imply that _____.
a. people can play their music as loud as they would like
b. profit opportunities exist for entrepreneurs
c. a Pareto optimum is still easily achieved
d. people may be able to use resources without paying for them

Difficulty: Medium

Answer: d

Section and/or page number: Poorly Defined Property Rights, p 48

5. Which of the following is not a problem with poorly defined property rights?
a. Insufficient incentive exists to produce resources that cannot be protected.
b. Resources will tend to be underutilized.
c. Individuals may be able to use resources without paying for them.
d. Little incentive to conserve on the use of poorly defined resources.

Difficulty: Moderate

Answer: b

Section and/or page number: Poorly Defined Property Rights, p. 49

6. Property rights often remain poorly defined because of _____.
a. difficulty enforcing ownership once defined
b. government fiat
c. strong incentives towards the status quo
d. monopolies

Difficulty: Easy

Answer: a

Section and/or page number: Poorly Defined Property Rights, p. 50

7. Which of the following statements best summarizes why buffalo almost became extinct during the 1800s?
a. Hunters from the East refused to respect the buffalo as the American Indians did.
b. Demand for buffalo meat was high in Eastern markets.
c. No one owned a buffalo until it was killed.
d. Buffalo do not run away upon hearing rifle shots.

Difficulty: Moderate

Answer: c

Section and/or page number: Overuse of Resources With Poorly Defined Property Rights, p. 50

8. One reason why African elephants are endangered is _____.
a. the low cost of hunting exhibitions
b. exploitation by zoo owners
c. many natural predators
d. governments often prohibit private ownership

Difficulty: Easy

Answer: d

Section and/or page number: Property Rights and the Protection of Endangered Species, p. 51

9. The Coase Theorem states that _____.
- a. in the absence of transactions costs, the allocation of resource will be independent of property right assignment
 - b. in the absence of transactions costs, the allocation of resources will be dependent on property right assignment
 - c. with transactions costs, the allocation of resources will be independent of property right assignment
 - d. with transactions costs, the allocation of resources will be dependent of property right assignment

Difficulty: Moderate

Answer: a

Section and/or page number: The Coase Theorem, p. 52

10. The Coase Theorem implies that when there are no costs to trading, _____.
- a. resources will move to their most valued uses, depending upon who gets the initial property rights
 - b. resources will move to their most valued uses, regardless of who gets the initial property rights
 - c. resources might be misallocated, depending upon the who gets the initial property rights
 - d. resources might be misallocated, regardless of who gets the initial property rights

Difficulty: Moderate

Answer: b

Section and/or page number: The Coase Theorem, p. 52

11. The Coase theorem applies to cases where _____.
- a. transactions costs are high
 - b. transactions costs are obvious
 - c. transactions costs are zero
 - d. transactions costs are difficult to figure out

Difficulty: Easy

Answer: c

Section and/or page number: The Coase Theorem, p. 53

12. The Coase Theorem implies that _____.
- a. absent transactions costs, resources will be efficiently allocated
 - b. absent transactions costs, resources will be inefficiently allocated
 - c. with significant transactions costs, resources will be efficiently allocated
 - d. with significant transactions costs, resources will be inefficiently allocated

Difficulty: Medium

Answer: a

Section and/or page number: The Coase Theorem, p. 53

13. The Coase Theorem does not imply which of the following?
- a. Resources will be allocated efficiently in the absence of transactions costs.
 - b. Resources will move to their highest valued use in there are no transactions costs.
 - c. The initial allocation of property rights does not matter to the parties involved.
 - d. The allocation of resources is independent of the assignment of property rights if transactions costs are zero.

Difficulty: Hard

Answer: c

Section and/or page number: The Coase Theorem, p. 53

14. Coase made famous a court case between a doctor and a confectioner. Suppose that exact case happened again and transactions costs were absent. When would we be sure that resources were inefficiently allocated?
- If the confectioner wins the property right to make his confections.
 - If the doctor wins the right to prevent the confectioner from making his confections.
 - Zoning laws are changed to prevent the confectioner from manufacturing in the current location.
 - The judge forces the parties to bargain until they reach an agreement on who has a right to do what.

Difficulty: Hard

Answer: c

Section and/or page number: The Coase Theorem, p. 53

15. In Coase's case of the doctor and the confectioner, who or what caused the negative situation?
- The doctor, for moving his office so close to the confectioner that vibrations become a problem.
 - The confectioner, for creating the noise pollution.
 - Zoning laws.
 - Poorly defined property rights.

Difficulty: Hard

Answer: d

Section and/or page number: The Reciprocal Nature of the Problem, p. 54

16. In the context of the Coase theorem, the reciprocal nature of the problem is the fact that _____.
- property rights are poorly defined for both parties
 - both parties are involved in a dispute
 - both parties are responsible for the problem
 - one party needs to give something up in order for the dispute to be resolved

Difficulty: Hard

Answer: c

Section and/or page number: The Reciprocal Nature of the Problem, p. 54

17. There are likely to be low transactions costs when _____.
- property rights are not well-defined
 - property rights are well-defined
 - there are large numbers of people involved
 - there are small numbers of people involved

Difficulty: Easy

Answer: d

Section and/or page number: Small Numbers Mean Low Transactions Costs, p. 55

18. When property rights are poorly-defined, a setting with large numbers of people suggests _____
- an intractable problem
 - high transactions costs
 - low transactions costs
 - an active role for government
 - both b and c

Difficulty: Moderate

Answer: b

Section and/or page number: Large Numbers Mean High Transactions Costs, p. 56

19. If transactions costs are high and the number of individuals involved is large, then the assignment of property rights _____.
a. will eventually lower transactions costs
b. will overcome the free rider problems
c. matters for economic efficiency
d. does not matter to the participants

Difficulty: Easy

Answer: c

Section and/or page number: Transactions Costs and Property Rights, p. 56

20. The common pool problem refers to _____.
a. the fact that nobody has an incentive to consider the costs their actions impose on others
b. poorly defined property rights encourage people to join groups to oversee resources
c. the fact that a small number of participants can create high transactions costs
d. the fact that a large number of participants can create low transactions costs

Difficulty: Easy

Answer: a

Section and/or page number: Common Ownership and Overuse, p. 57

21. Which of the following would not be an example of a common pool problem?
a. Oil reserves located under several separately owned parcels of land.
b. Buffalo nearly becoming extinct during the 1800s in the United States.
c. Rhino being poached for their horn in many African countries.
d. The grass is dying from overuse at a local dog park created by a local nonprofit.

Difficulty: Hard

Answer: d

Section and/or page number: Common Ownership and Overuse, p. 57

22. Which of the following is not a way to solve the common pool problem?
a. Dividing up the resource evenly among all individuals using the common pool.
b. Giving the resource to one individual.
c. Letting resource owners work out a solution naturally.
d. Creating an agreement among resource users regulating use of the resource and sanctions for violators of the agreement.

Difficulty: Hard

Answer: c

Section and/or page number: Common Ownership and Overuse, p. 58

23. Government ownership of resources _____.
a. is the same as private ownership
b. is different than private ownership because government allocates resources based on the public interest
c. is different than private ownership because government allocates resources based on politics
d. is different than private ownership because government allocates resources based on efficiency

Difficulty: Hard

Answer: c

Section and/or page number: Government Ownership and Resource Allocation, p. 59

24. When common pools are placed under government ownership, their use will be dictated by the _____.
a. costs and benefits of a proposed use
b. amount of political pressure brought by competing factions
c. social welfare function
d. professional economists employed by the agency overseeing the resource
Difficulty: Moderate
Answer: b
Section and/or page number: Public Policy and Government Ownership, p. 59
25. Communally owned farms in centrally planned economies such as the former Soviet Union _____.
a. were equally productive as privately owned farms in the United States
b. were more productive as privately owned farms in the United States
c. were less productive than privately owned farms in the United States
d. are impossible to compare to privately owned farms in the United States because of data limitations
Difficulty: Moderate
Answer: c
Section and/or page number: Communal Ownership in Centrally Planned Economies, p. 60
26. Government managers _____.
a. care only about the public interest
b. have an incentive to consider their private benefits and costs
c. can use firm valuation to gauge performance
d. have an incentive to maximize profits
Difficulty: Easy
Answer: b
Section and/or page number: The Incentives of Government Managers, p. 61
27. Entitlements _____.
a. give some individuals a command over the economic resources of others
b. do not require others to take action
c. are analogous to property rights
d. have not expanded during the twentieth century
Difficulty: Easy
Answer: a
Section and/or page number: Property Rights and Entitlements, p. 62
28. Which of the following statements is not true about zoning laws?
a. There are no zoning laws in Houston, Texas.
b. The first zoning laws were passed in New York City.
c. They are necessary for efficient land use.
d. Zoning proscribes certain land use patterns.
Difficulty: Hard
Answer: c
Section and/or page number: The Justification for Zoning Laws, p. 63

29. Zoning laws _____.
- a. are the reason why Houston, Texas is indistinguishable from other major cities
 - b. are necessary for orderly, efficient land use
 - c. guarantee that two parcels of land next to each other will be compatible
 - d. are used by governments to create more desirable communities

Difficulty: Moderate

Answer: d

Section and/or page number: The Justification for Zoning Laws, p. 64

30. Which of the following statements about restrictive covenants are true?
- a. Restrictive covenants do not work in preventing incompatible uses of property.
 - b. There are not enough restrictive covenants to cover all eventualities.
 - c. Restrictive covenants can be used instead of zoning laws.
 - d. Restrictive covenants fail to produce results similar to zoning.

Difficulty: Moderate

Answer: c

Section and/or page number: Restrictive Covenants, p. 65

31. During the twentieth century, land use planning has become _____.
- a. more restrictive.
 - b. less restrictive.
 - c. more concerned with economic efficiency.
 - d. less politically motivated

Difficulty:

Answer:

Section and/or page number:

True or False

32. If clearly defined property rights did not exist, there would be no incentive for trade or produce more than could be protected by theft.
- True
 - False
- Difficulty:** Easy
Answer: a
Section and/or page number: Property Rights and Economic Efficiency, p. 47
33. According to the Coase Theorem, if there are no transactions costs it does not matter who gets the initial property right from the standpoint of economic efficiency because the person who values it highest will come along and take it.
- True
 - False
- Difficulty:** Medium
Answer: b
Section and/or page number: The Coase Theorem, p. 53.
34. According to the Coase Theorem, if there are no transactions costs it does not matter to the individuals involved who gets the initial property right.
- True
 - False
- Difficulty:** Medium
Answer: c
Section and/or page number: Income Effects, p. 53
35. Property rights have to be predefined or go through litigation in order to go to those who value them the highest.
- True
 - False
- Difficulty:** Moderate
Answer: b
Section and/or page number: Do Property Rights Have to Be Predefined?, p. 54
36. If transactions costs are high and the number of individuals involved is large, initial assignment of property rights is important to economic efficiency.
- True
 - False
- Difficulty:** Easy
Answer: a
Section and/or page number: Transactions Costs and Property Rights
37. Oil is discovered under a nature preserve owned by the Audubon Society. Private ownership provides a strong incentive for even staunch naturalists to contract with oil companies to safely extract the oil.
- True
 - False
- Difficulty:** Easy
Answer: a
Section and/or page number: Government Ownership and Resource Allocation, p. 59

38. Government managers of natural resources only have the public benefit in mind when making decisions regarding the natural resources under their control.
- a. True
 - b. False
- Difficulty:** Easy
Answer: b
Section and/or page number: Public Policy and Government Ownership, p. 59.
39. Government ownership of natural resources saves those resources forever.
- a. True
 - b. False
- Difficulty:** Easy
Answer: b
Section and/or page number: Public Policy and Government Ownership, p. 60
40. Efficient land use can only be achieved through zoning laws.
- a. True
 - b. False
- Difficulty:** Moderate
Answer: b
Section and/or page number: The Justification for Zoning Laws, p. 64
41. In a city with as much zoning as Houston, restrictive covenants are rarely needed.
- a. True
 - b. False
- Difficulty:** Easy
Answer: b
Section and/or page number: Restrictive Covenants
42. Twenty-first century land use planning has been increasingly focused on economic efficiency.
- a. True
 - b. False
- Difficulty:** Easy
Answer: b
Section and/or page number: Twenty-First Century Land Use Planning

Essay/Short Answer Questions

43. Define property rights. Give an example of a property right in action. Are property rights absolute? If they are situations where they are not, using your previous example, give a situation where that property right might not be absolute.

Difficulty: Moderate

Answer: A property right entails the right to engage in a certain set of activities (if she chooses to do so). For example, the owner of a house can paint her bedroom yellow if she would like to do so. At the same time, property rights entail certain responsibilities, implying that property rights are not absolute. The same property owner who paints her bedroom yellow might not be allowed to paint the exterior of her house yellow, depending upon local zoning laws.

Section and/or page number: Property Rights, p. 47

44. The Coase Theorem implies that transactions costs are important in whether or not the initial assignment of property rights matters for economic efficiency. Describe what is meant by transactions costs and how transactions costs tend to vary as the size of groups increase.

Difficulty: Medium

Answer: Transactions costs are any costs associated with exchange. This could include the costs of moving goods from place to place, lawyers fees, the time and energy spent in bargaining, making counter-offers, etc. The smaller the group, the lower the transactions costs tend to be because it is easier to come to a bargain. This is not to say that transactions costs *have* to be low in this situation merely that they tend to be. As the size of the group increases, the transactions costs tend to increase because the probability of getting everyone to come together and agree on a solution decreases as group size increases.

Section and/or page number: Small Numbers and Large Numbers, p. 55

45. What is the common pool problem? Provide some examples.

Difficulty: Moderate

Answer: The common pool problem exists when many individuals share ownership of a common resource and cannot exclude or limit the others from using the resource. This creates a strong incentive to utilize the resource as much as possible before other individuals do. Inevitably this leads to depletion of the resource. Some examples include the air, common grazing areas, and some animal populations.

Section and/or page number: The Common Pool Problem, p. 56

46. The bureaucrat in charge of managing a state park is contemplating whether or not to ban snowmobiles from the park. What sort of factors is she likely to weigh when making her decision? How might those factors differ if she was the park manager for a private corporation?

Difficulty: Medium.

Answer: While she will probably evaluate the environmental damage that snowmobiles might cause versus the enjoyment that people get from using them, the primary factor in her decision is likely to be the amount of political pressure that environmental groups can bring to bear on her and those responsible for her appointment. If she was the park manager for a private corporation, she would primarily have to weigh the costs and benefits of banning snowmobiles.

Section and/or page number: Government versus Private Ownership, p. 58

47. What is an entitlement? Specifically discuss how it might be different than a property right, properly understood. Using your definition, discuss how the right to bear arms and the right to an education might be different.

Difficulty: Hard

Answer: An entitlement gives the holder of the entitlement a claim over the resources of other individuals in society. Property rights, on the other hand, confer no such obligation. The creation of a property right

requires no positive action by other individuals; an entitlement creates an obligation that other individuals give up resources to meet that entitlement. The key difference between the right to bear arms and the right to an education then, is that the former is a right (since it confers no obligation upon others) and the latter is an entitlement (since it implies that others are to fund that education if the individual is unable to do so).

Section and/or page number: Property Rights and Entitlements, p. 62

48. Are zoning laws necessary to achieve separate residential and industrial neighborhoods? Why or why not? Provide a historical example that gives credence to your answer.

Difficulty: Hard

Answer: Zoning laws are not necessary to achieve separate residential and industrial neighborhoods. Historically, separate neighborhoods were created because of the existence of the law of nuisance. Factory owners would not locate in a residential neighborhood because they knew they could be taken to court for creating a nuisance. Also, restrictive covenants can be used to maintain the residential or industrial character of entire neighborhoods. A historical example of this is Houston, Texas, which developed much like any other city, except that it has no zoning laws.

Section and/or page number: Land Use Planning: An Application of Property Rights Theory, p. 62