

C. Now assume that the marginal cost of extraction is \$2. Using the original discount rate of 3%, how does this change your answer to (A)?

D. Now assume that a new discovery is made (at $t=0$) and the amount of the resource doubles to 30. How does this change your answers to (A) through (C)?

4. Listen to the 4 minute news clip from October 17, 2004, “Searching for factors behind oil’s steep rise” by clicking on:

<http://www.npr.org/templates/story/story.php?storyId=4112999>

If this link does not work, visit the National Public Radio website at www.npr.org and search for *oil's steep rise* using the search command.

A. What reasons do the analysts provide for the rising price of oil?

B. Explain and supplement their analysis using the concepts of marginal user cost and scarcity.

5. With the aid of a graph, explain why importing oil is still preferred to self-sufficiency, despite the threat of embargos and the cost of foreign dependence on oil.

6. Discuss the efficient allocations for surface and groundwater. Why are these different?

7. Illustrate and describe two approaches to “getting the prices right” for water.