

DUE 2/5/09

PLEASE TYPE YOUR ANSWERS ON A SEPARATE SHEET ON PAPER!

1. Can you think of a way in which a new rural telephone subscriber contributes a beneficial externality? If so, does it make sense to provide a subsidy to rural subscribers, and who should pay the subsidy?
2. Do you think that there are economies of scope between local telephone service and long-distance service? How about between local telephone service and cable television service? What difference does the economies of scope make for the optimal regulatory policy (i.e. should regulators require these different services to be provided by different companies)?
3. What is a LATA? Traditionally, what is the difference between an IXC and a LEC? What is the difference between a CLEC and an ILEC? What is an "independent" LEC? Are there more Bell Operating Companies or more independent telephone companies?
4. How is a natural monopoly different from a "plain" monopoly? What does the term economies of scale mean? Do all natural monopolies have economies of scale?