

TERMS & TOPICS – Externalities

market failure

Externality

Consumption Externalities; negative/positive; examples

Production Externalities; negative/positive; examples

Analysis of a Negative Externality: private cost, external cost, social cost

Internalizing the Externality

market equilibrium vs. socially optimal equilibrium

Analysis of a Positive Externality: private benefit (WTP), external benefit, social benefit (value)

Evaluate graphically Taxing/Subsidizing goods with externalities

Public Policies Toward Externalities

Command-and-control policies

Market-based policies

corrective taxes/subsidies

tradable pollution permits

pollution abatement

Efficient pollution abatement

pollution tax

Private Solutions to Externalities

The Coase Theorem

Why Private Solutions Do Not Always Work