

6. Because of a recent wave of jewellery store robberies, a city increases police surveillance of jewellery stores. The increased surveillance costs the city an extra \$500,000 per year, but as a result, the amount of jewellery that is stolen falls. Specifically, without the increase in surveillance, jewellery with a retail value of \$900,000 would have been stolen. This stolen jewellery would have been fenced by the jewellery thieves for \$600,000. What is the net social benefit resulting from the police surveillance program?

6. As a result of the increase in surveillance, the jewellery stores (or their insurance companies) receive benefits of \$900,000, taxpayers incur costs of \$500,000, and the jewellery robbers incur costs of \$600,000.

The answer to this question depends on whether the jewellery robbers are given standing. After all, they are (unfortunately) part of society.

If the robbers are given standing, society suffers a \$200,000 net loss:
 $\$900,000 - \$500,000 - \$600,000 = -\$200,000$.

If the robbers are not given standing, which would appear to be the more appropriate approach, society enjoys a \$500,000 net benefit from the surveillance project:
 $\$900,000 - \$500,000 = \$400,000$.