**Government response to market failure caused by externalities**

Governments will often intervene in markets when they consider that the external costs or benefits of the production or consumption of a good/service are so severe that the market failure must be corrected.

The policies implemented are generally designed to change demand and/or supply of a product to reduce or increase production or consumption.

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| **Type of externality** | **Government response** | **Inc/Dec demand?**  **Inc/Dec supply?** |
| External cost |  |  |
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| External benefit |  |  |
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