Answer each of the following questions below. Due last class meeting.

1. Define an externality per the classroom discussion. Cite both a positive and negative externality. Explain why, in each case, the market would provide either less than or greater than the efficient quantity. How would you propose correcting for each of the externalities mentioned?

2. Define monopsony. What does it mean to have monopsony power? Illustrate graphically a monopsonist in the labor market. In your graph, depict the difference between the quantity hired by the firm exhibiting monopsony power and what the market would look like if it were competitive.

As we learned from class an externality is whenever a third party incurs a cost or receives a benefit of some sort. The positive externalities, also called spillover benefits, can be found by using vaccinations and education as an example. Vaccinations effects are not just on those who get the vaccinations but all those whom he or she comes in contact with. If the vaccination is used widely enough then the individuals who the vaccinated one comes in contact with have a lesser chance of getting whatever the person who got vaccinated for originally. This is shown by the eradication of smallpox. While not absolutely everyone in the whole world got the smallpox vaccination, a fair amount did and then the whole virus was eradicated so even those who didn’t get the vaccination felt the benefits. When it comes to education the benefit of higher education is felt beyond the graduate, the whole societies benefit. The society benefits by having more educated individuals which then reduces poverty rates as shown through Collegeboards’ *The Benefits of Higher Education for Individuals and Society*. “The 4% poverty rate in 2008 for bachelor’s degree recipients was one-third of the 12% poverty rate for high school graduates(Baum 25).” Benefits do not stop there, society is helped by taxes as well. Only six percent of individuals who hold a BA or higher smoke where 27% of individuals who did not complete high school smoke. This translates to those who complete college helping keep our air clean and lower healthcare costs (Baum 27). This leads to negative externalities, which are otherwise known as spillover costs. Examples of spillover costs are cigarettes. While the smoker enjoys his or hers cigarette society is burdened by second-hand smoking, added healthcare costs subsidized by others, and the emotional effects on those related to him or her.

Works Cited

Baum, S., J. Ma, and K. Payea. "Trends in Higher Education Series: Education Pays 2010."*Collegeboard*. The College Board, 2010. Web. 4 Dec 2011. <http://trends.collegeboard.org/downloads/Education\_Pays\_2010.pdf>.