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Extra Credit

As we learned from class an externality is whenever a third party incurs a cost or receives a benefit of some sort. Society incurs a cost due to a factory producing steel. The population bears the cost of the air pollution by increased health care costs due to a heightening of asthma cases, emotional hardship due to rising cancer rates, and lost wages and thus taxes due to the population being sick and dying earlier. Market failure is quite evident here, in this case, by overproduction of pollution (MSC>MPC). This could be corrected if the factory soon had to pay an ecotax of some sort. The ecotax would either have the effect of the factory decreasing output, thus decreasing pollution, or becoming more ecofriendly to lessen their tax burden. A positive externality, otherwise called spillover benefits, can be found using recycling as an example. The benefits of recycling, the reduction of the need for landfills, saved energy, and sustainability of the environment for future generations is felt by everyone whether they individually recycled or not. Just as in the negative externality example above, the market fails to produce the efficient amount as well except in this case it produces too little. California has tried to correct the market failure by enacting California Redemption Value, otherwise known as CRV, which is a fee paid on purchases of recyclable beverages. If the recyclable beverage container is returned the recycling center pays back the CRV to the consumer. If a variant of CRV was enacted nation-wide one could confidently say that the amount of recyclable cans being recycled would increase countrywide.

A monopsony is when one buyer faces many sellers. This can be shown using a town that relies on coal mining for example. The coal mine in many small towns is the largest employer of unskilled workers. The workers are at the mercy of the coal mining owners because they employ everybody and their uncle. You don’t have to have a pure monopsonist to be able to have monopsony power. However, whatever wage they offer is what you can get paid. A monopsonist market hires less workers and at a lower wage rate than a competitive market. Another example, outside of labor, would be Walmart. Walmart is not a pure monopsonist but have enough buying power to influence sellers to take whatever price and terms Walmart offers. If the seller declined Walmarts offer they are cutting off millions of potential buyers of their product. From Walmarts point of view, if the seller chooses not to accept Walmarts price and terms, they can go to any of the other thousands of sellers who want to have their product in Walmart stores.

Graph: