## Key Terms

additional external cost

additional costs incurred by third parties outside the production process when a unit of output is produced

biodiversity

the full spectrum of animal and plant genetic material

command-and-control regulation

laws that specify allowable quantities of pollution and that also may detail which pollution-control technologies one must use

externality

a market exchange that affects a third party who is outside or “external” to the exchange; sometimes called a “spillover”

international externalities

externalities that cross national borders and that a single nation acting alone cannot resolve

market failure

When the market on its own does not allocate resources efficiently in a way that balances social costs and benefits; externalities are one example of a market failure

marketable permit program

a permit that allows a firm to emit a certain amount of pollution; firms with more permits than pollution can sell the remaining permits to other firms

negative externality

a situation where a third party, outside the transaction, suffers from a market transaction by others

pollution charge

a tax imposed on the quantity of pollution that a firm emits; also called a pollution tax

positive externality

a situation where a third party, outside the transaction, benefits from a market transaction by others

property rights

the legal rights of ownership on which others are not allowed to infringe without paying compensation

social costs

costs that include both the private costs incurred by firms and also additional costs incurred by third parties outside the production process, like costs of pollution

spillover

see externality