Firms that emit toxins into the air without paying pollution taxes or purchases licenses to pollute tend to

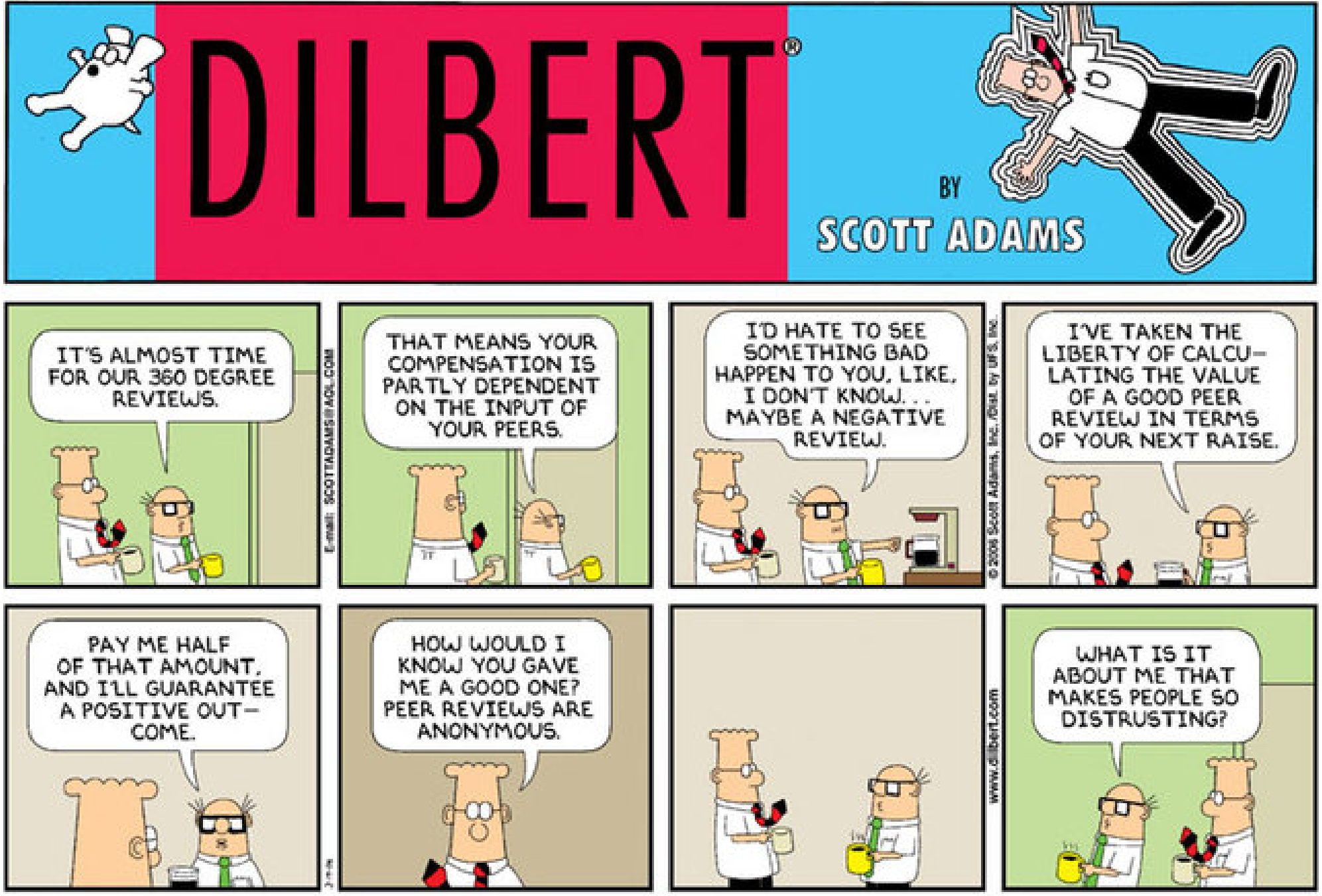
- Underproduce because the private cost of production exceeds the social cost
- Overproduce because the social cost of production exceeds the private cost
- Produce the same quantity as nonpolluting firms
- Produce the socially optimal amount
- "Internalize the externality" in the product's price

In the economic analysis of negative externalities (e.g., toxins in the atmosphere)

- The optimal amount of the negative externality is \textbf{zero}
- One considers the costs of reducing the toxins, not the benefits; environmentalists considier the benefits and not the costs
- The private costs of an economic activity are \textbf{greater} than the social costs
- The optimal amount of the externality is determined where MSC is equal to MSB
- A proper application of corrective taxes will \textbf{reduce} the price that consumers pay for the externality-generating good.

The Coase Theorem

- government can enforce **property rights**
- transaction costs are low
- agents have symmetric information and can make contracts



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Central Texas coalition urges buyout of rice farmers

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View Comments

A consortium of Central Texas businesses and communities has floated a novel solution to the tug of war over Colorado River water: Pay downriver rice farmers not to farm rice.

Members of the Central Texas Water Coalition are asking the Lower Colorado River Authority to pay rice farmers at least $100 million not to farm rice in perpetuity. They figure that's cheaper than the cost of a proposed downriver reservoir, whose costs the LCRA estimates at $206 million.

Switzerland Is Paying Poorer Nations to Cut Emissions on Its Behalf

The agreements raise concerns that other countries will follow suit, delaying more difficult cuts of greenhouse gas emissions in wealthier nations.