



Lecture 27

- **Externality**
 - Positive
 - Negative
- **Public goods**



Externality

- **Negative externalities:**
 - External cost (Figure 18.1)
 - Examples: smoking, pollution
- **Positive externalities :**
 - External benefits (Figure 18.2)
 - Examples: education
- **Ways of correcting market failure:**
 - Quantitative restrictions: emissions standard
 - Tax/subsidy: emissions fee (transferable)
 - Property rights




Public Goods

- **Characteristics:**
 - Non-rival
 - Non-exclusive
- **Efficient provision:**

Total MV is the sum of individual MVs so that the total demand of a public good is the vertical sum of individual demands
- **Market failure:**

MVs unknown



Exercises

- Q1
- Q3
- Q4
- Q5
- Q6

