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