ICLICKER – REEF POLLING

1. The difference between what a consumer is willing to pay for something and the market price they actually pay is called

A. Total surplus

B. Producer surplus

C. Consumer surplus

D. Deadweight loss

2. The difference between what a producer must be paid to be willing to produce a product and the market price they are actually paid is called

A. Total surplus

B. Producer surplus

C. Consumer surplus

D. Deadweight loss

3. Typically, the imposition of an excise tax will

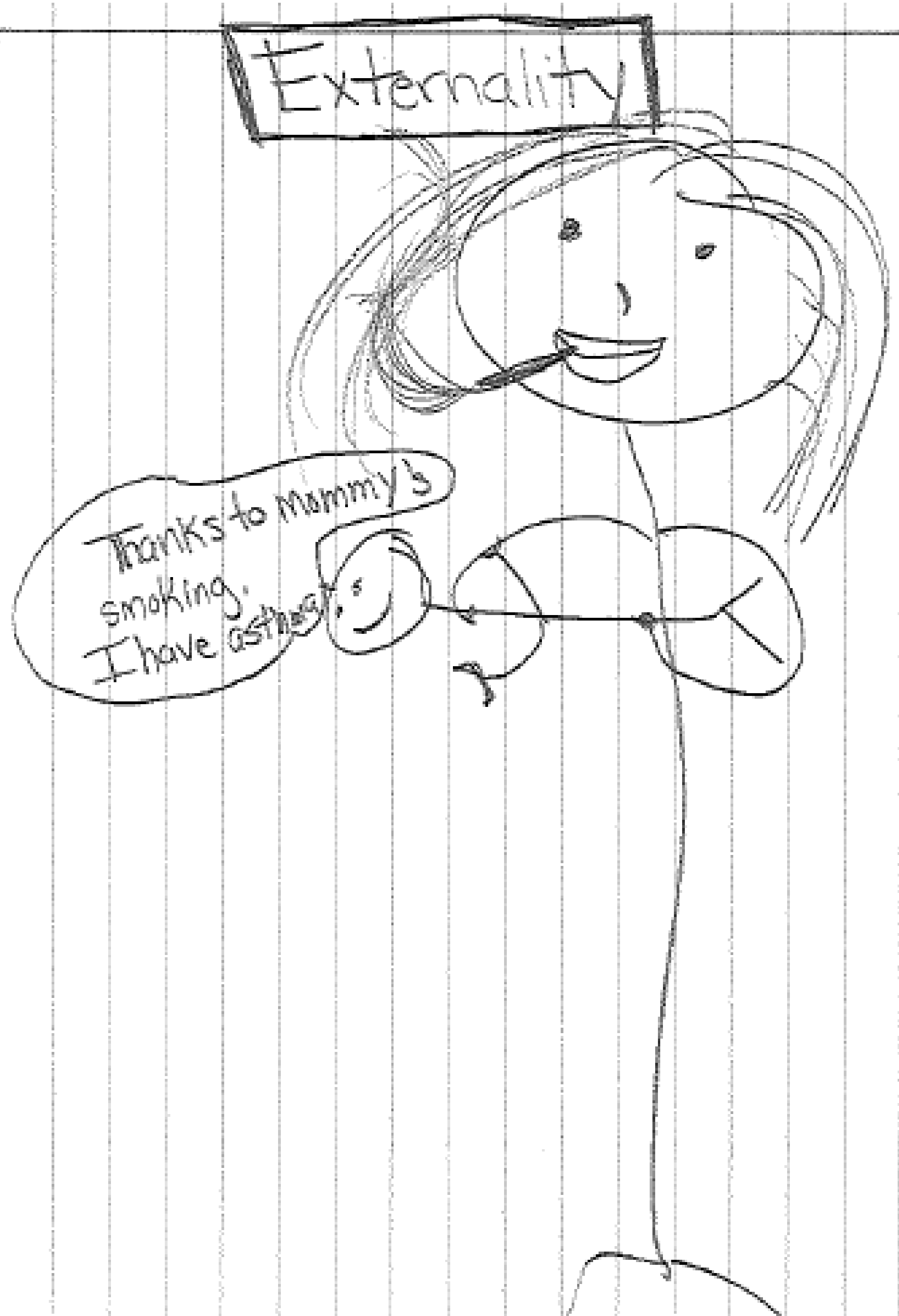
A. Reduce both consumer surplus and producer surplus.

B. Increase consumer surplus and reduce producer surplus.

C. Decrease consumer surplus and increase producer surplus.

4. Provide an example of one product whose consumption can lead to negative externalities.


NEGATIVE
STOP
ALL WAY
EXTERNALITY


Externality
Thanks to mummy's smoking, I have asthma

Chapter 10
Externalities

How does an externality make the market fail?

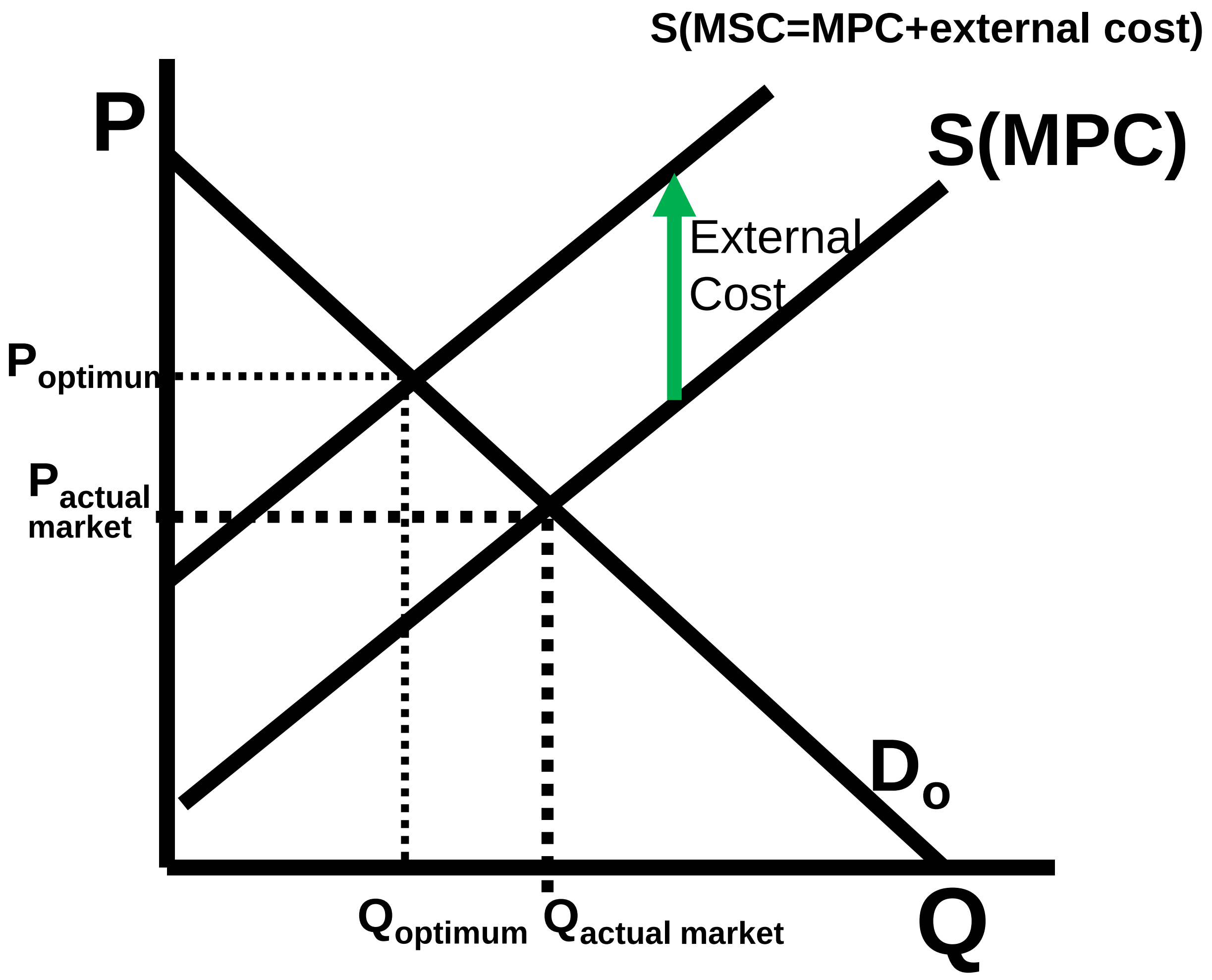
How externalities lead to "market failure"

- Market does not take into account costs and benefits to third parties.

- When negative externality present:
- Market OVERPROVIDES the good from society's point of view

- When a pos. ext. is present:
- Market UNDERPROVIDES the good from society's point of view.

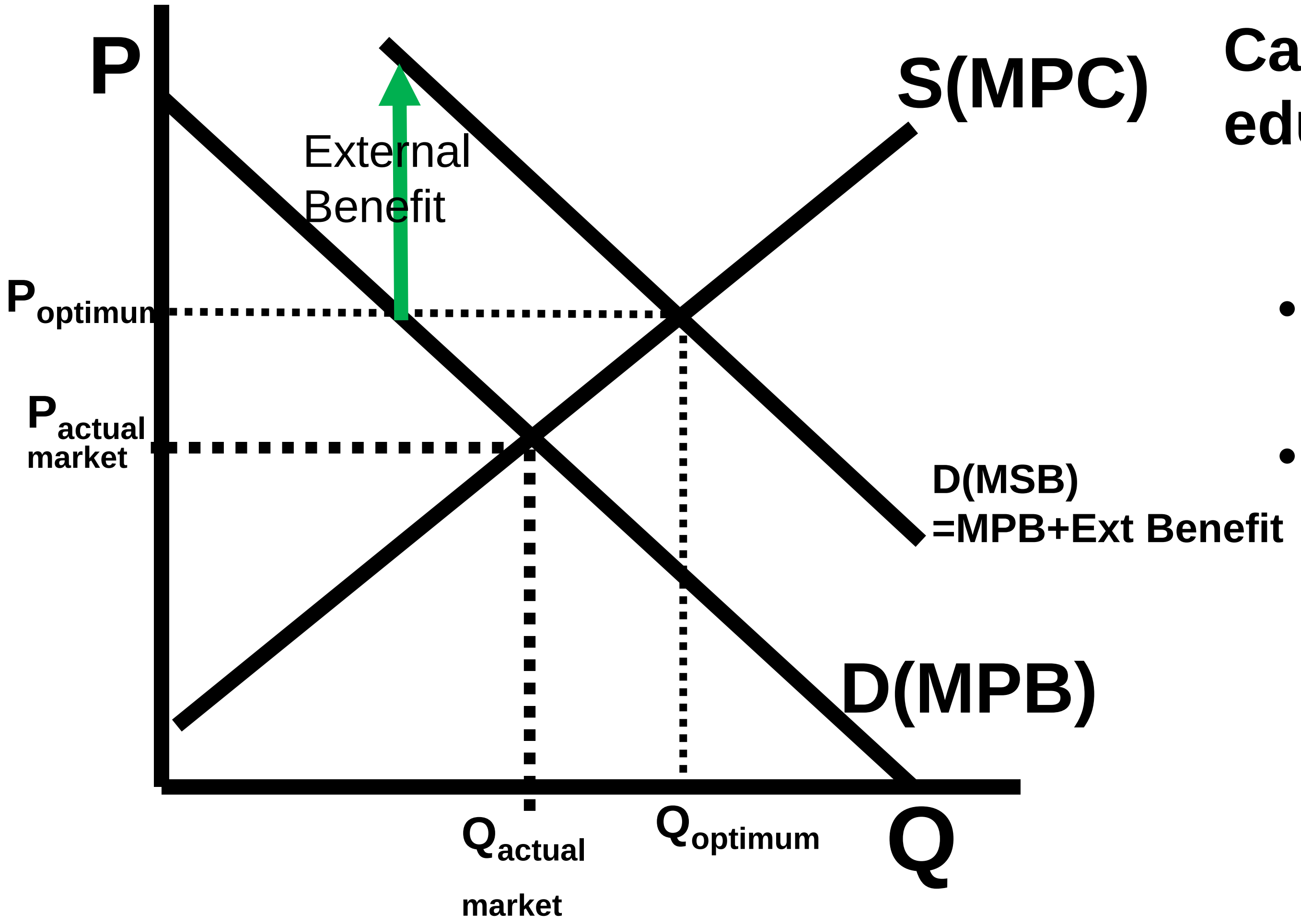
- Socially Optimal Output Levels



p. 147

III. Negative Externalities Caused by Producer - pollution

- **MPC –marginal private costs**
- **MSC-marginal social costs-includes external costs**



p. 148

IV. Positive Externality Caused by Consumer - education

- **MPB –marginal private benefit**
- **MSB-marginal social benefit=MPB+External Benefit**

V. Public Policy Towards Externalities: Ways Government tries to control externalities, p. 149

- **Internalizing the externality:** altering incentives so that people take account of the external effects of their actions.

- **Ensure private property rights** - enact and enforce laws

- **Command-and-Control Policies:** Policies that rely on regulation (permission, prohibition, standard setting, enforcement, property right protection.)

Smoking Ban

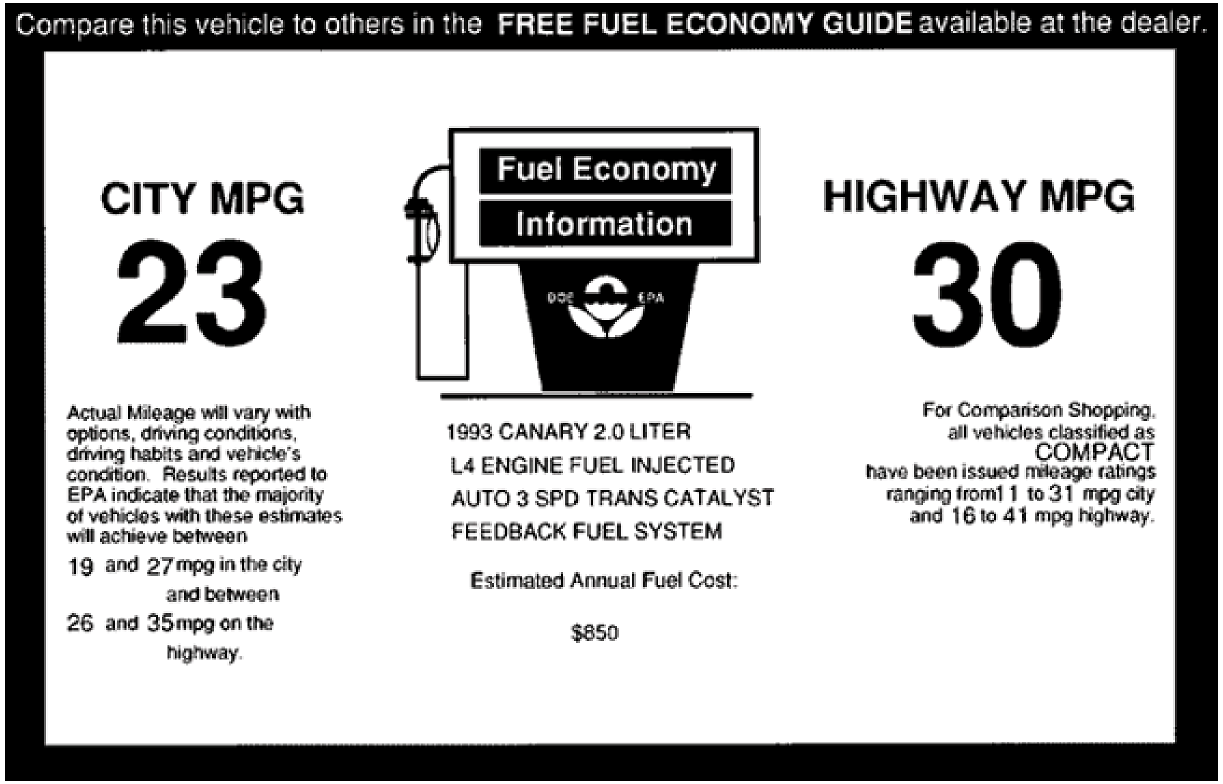
Protected Lands

Pollution Caps or Quotas

Prohibition of Texting While Driving

Standards for Cars

- Auto Emissions Standards
- Fuel-Efficiency Standards



Public Policy and Externalities - the Role of Government Command-and-Control policies

A ban on plastic carrier bags has come into force in Kenya, which means that anyone found selling, manufacturing or carrying them could face fines of up to $38,000 or prison sentences of up to four years.

Technology Spillovers and Patent Protection

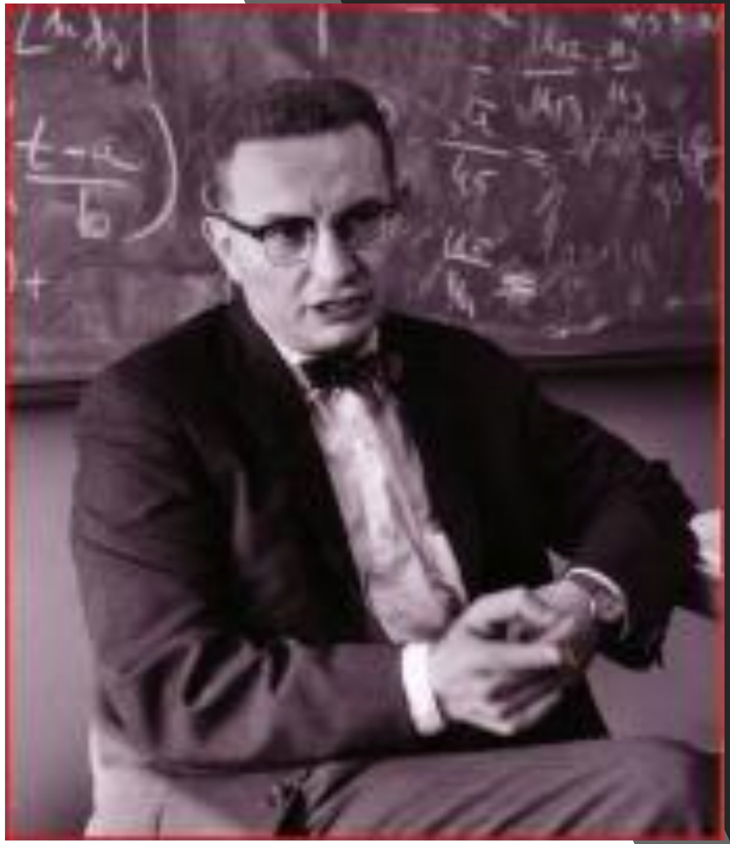
Internalizes the positive externality of technological innovation by giving the innovator private property rights

P. 150

- **<u>Market-Based Policy 1</u>:** Policies that increase or decrease the cost of producing or consuming a product with the intent of altering consumption or production to socially desirable levels.

  - **Corrective Taxes:**
  - **(also called Pigouvian Taxes)**
    - A pollution tax - effluent fees
    - Cigarette taxes on consumers
    - Snack Taxes

  - **Subsidies (or tax breaks):**
    - loans for education
    - free vaccinations
    - tax credits to homeowners



Author Pigou

Traffic Congestion in London

Traffic Accidents in London

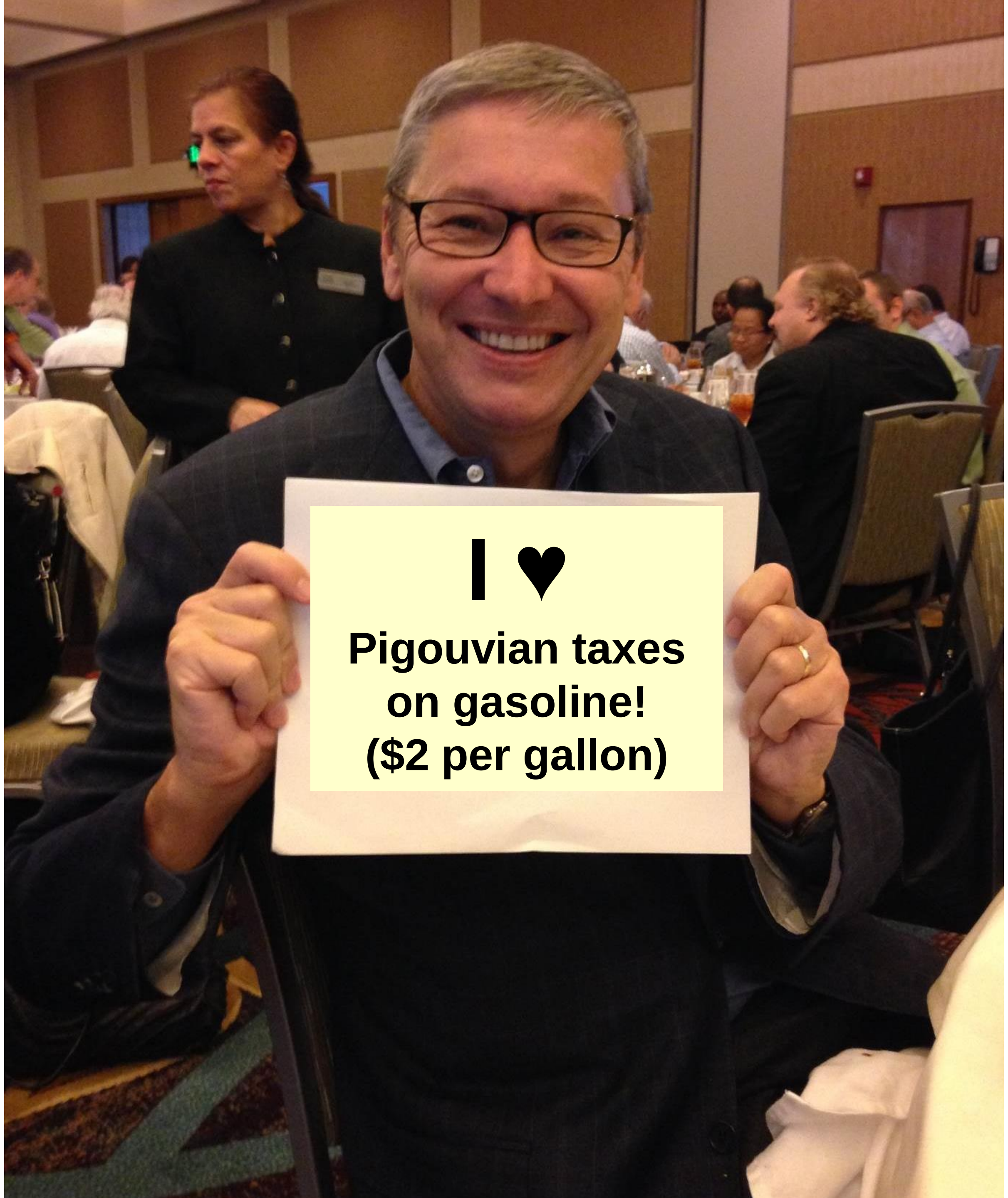
Noise Pollution

Air Pollution in London

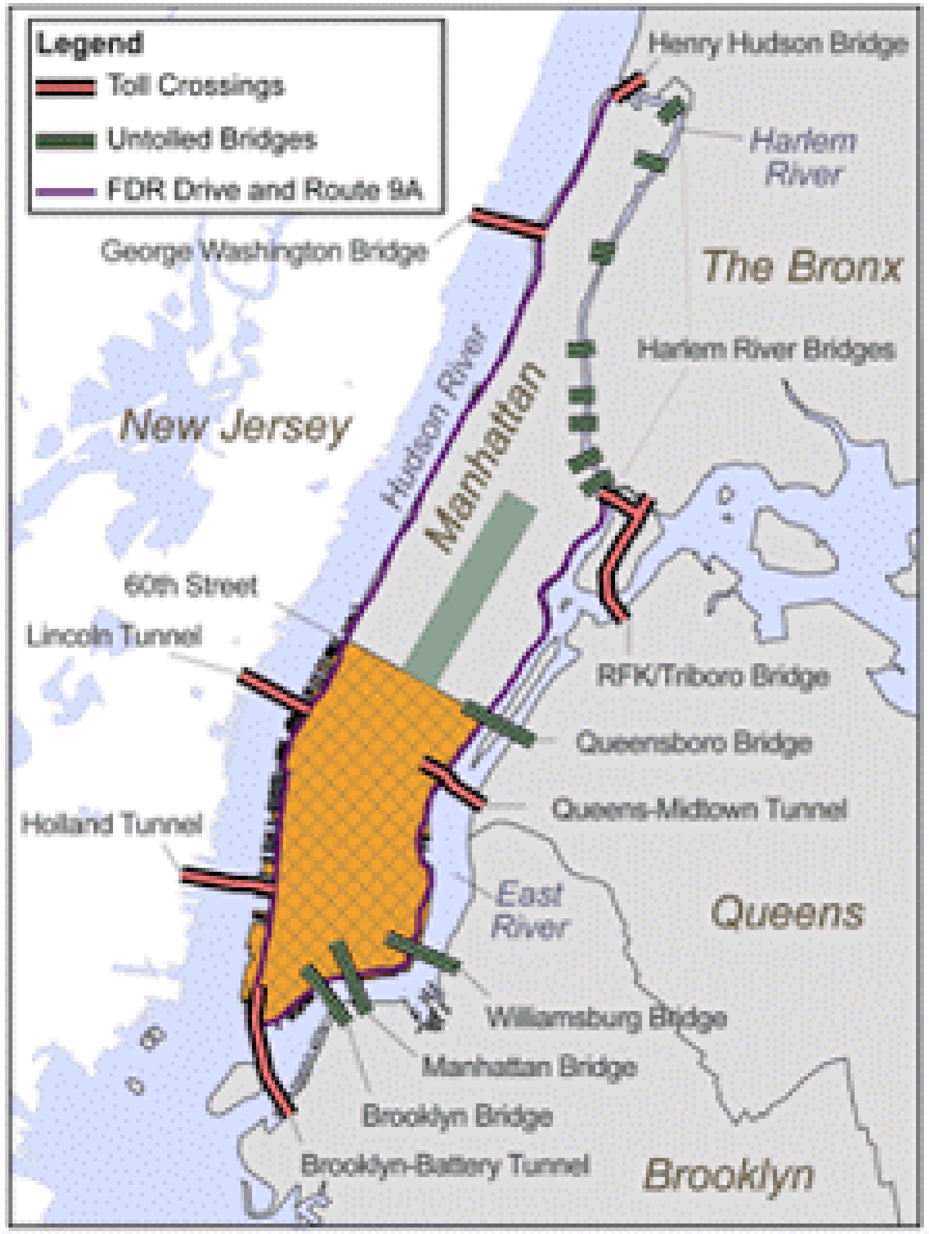
- **London congestion charge**
- a fee charged on most motor vehicles operating within the Congestion Charge Zone (CCZ)[1] in Central London between 07:00 and 18:00 Mondays to Fridays
- Currently £11.5 daily ($17.69)

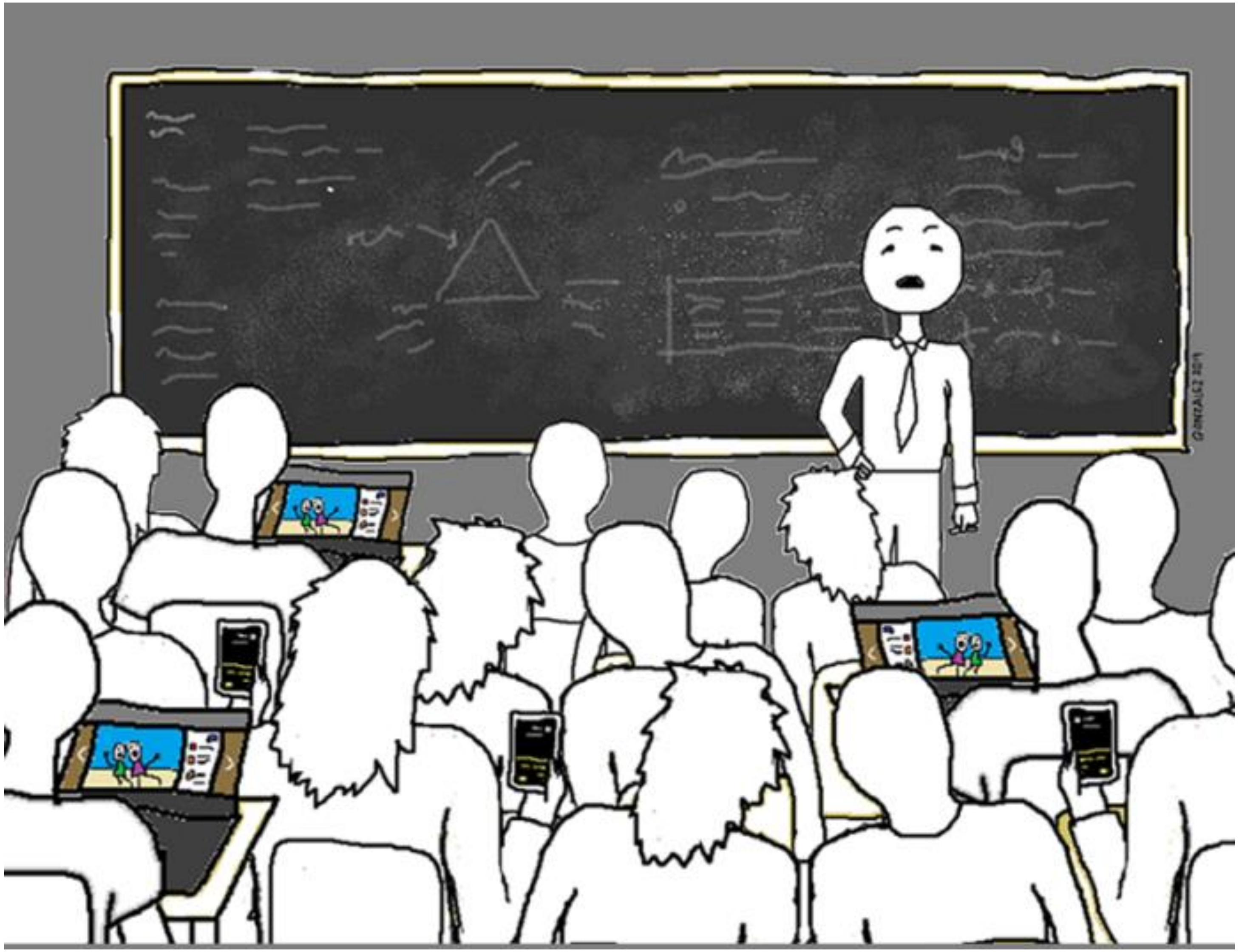
- Fuel Taxes
- A gallon of gas in London currently costs about $8.12


GO
CATS!


I ♥
Pigouvian taxes
on gasoline!
($2 per gallon)

Congestion Pricing in NYC



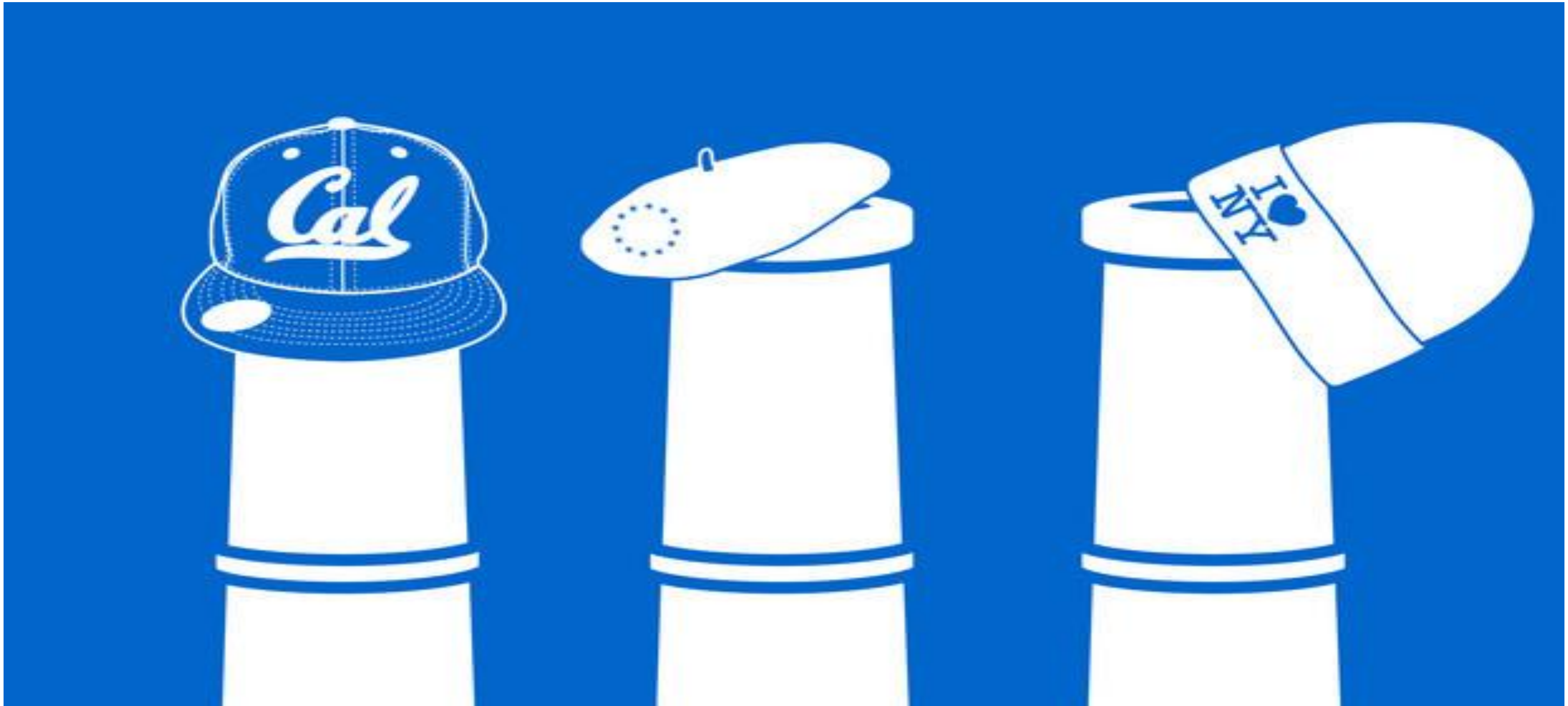


CLASS DISRUPTION TAX

OR

GOOD BEHAVIOR SUBSIDY?

- **<u>P. 151</u>**
- **<u>Market-Based Policy 2:</u>** Providing property rights for a certain amount of a good like pollution and allowing permit owners to use or trade their license/permit.
  - **Tradable Pollution Permits**
  - **Cap-and-Trade**



Governments will weigh cost and benefits of policies and doing nothing may be an option.

- **Drawbacks:**
  - **Government may overcompensate**
  - **Regulatory costs**
  - **With cap-and-trade – pockets of pollution**

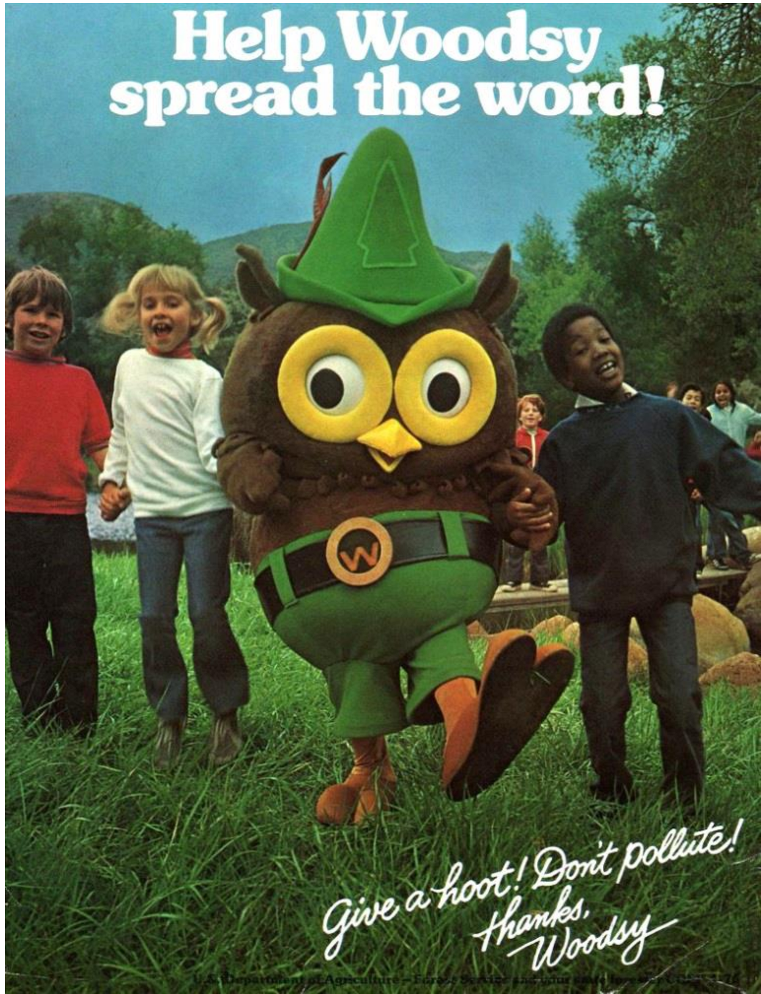
VI. Private Solutions to Externalities, p. 152

1) Moral Codes and Social Sanctions

- Litter

https://www.youtube.com/watch?v=j7OHG7tHrNM

https://www.youtube.com/watch?v=gZB7gSQRIuM



VI. Private Solutions to Externalities

2) Charitable Activity and Activism

- Keep America Beautiful
- Sierra Club
- Nature Conservancy

Reforest the Bluegrass

Our 2015 Reforest the Bluegrass sponsors

3) Business Integration

- West Sixth Brewing
- Smithtown Seafood
- Foodchain

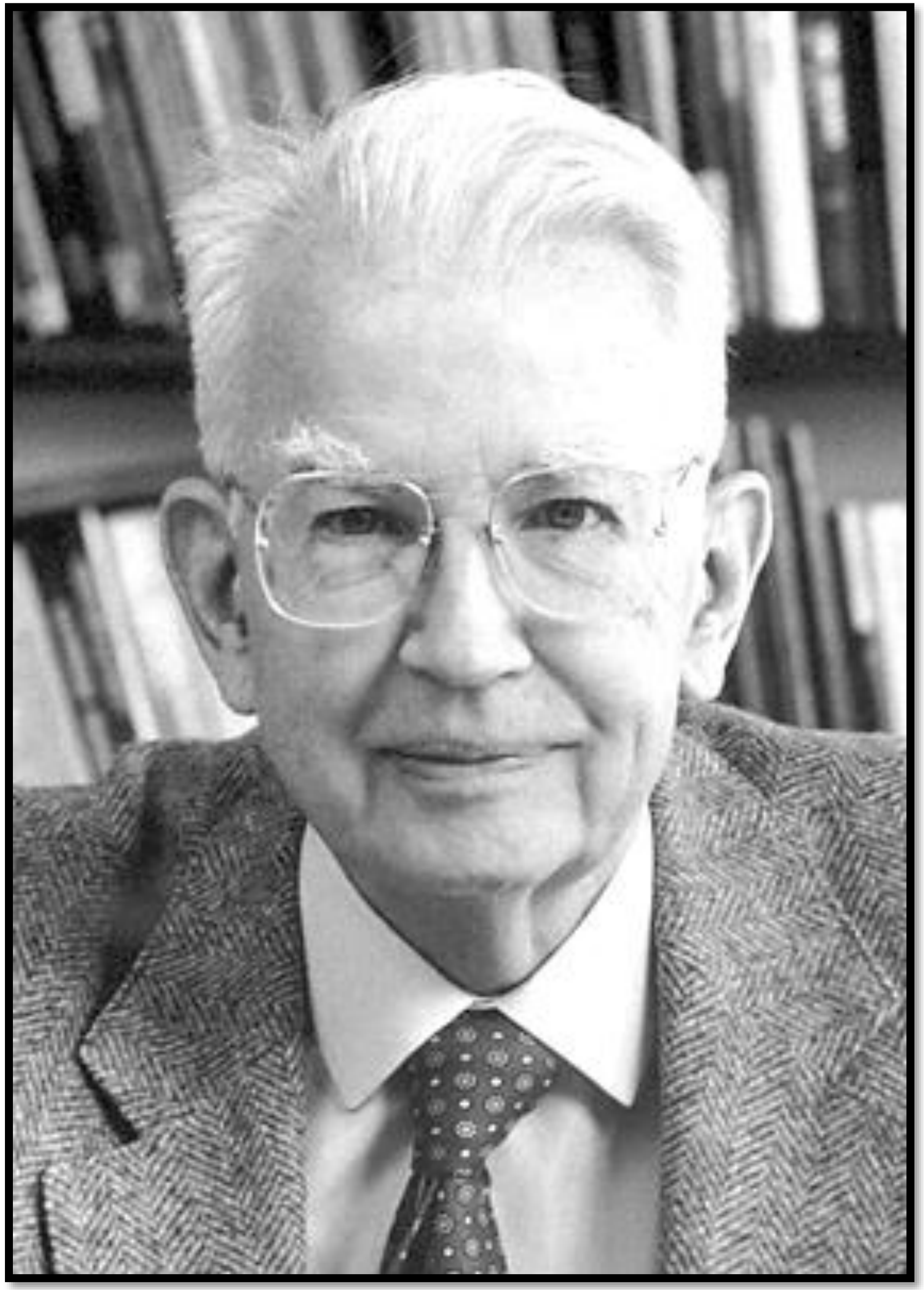
The three organizations have a symbiotic relationship. FoodChain raises tilapia fish, using some spent grains from West Sixth for fish food, harnesses the fish waste to fertilize garden greens, and then provides Smithtown with freshly harvested fish and greens grown in rooftop containers for its menu.

4) Private contracts (bargains)

Coase's Theorem -private economic actors can potentially solve the problem of externalities among themselves if there are not costs involved. Whatever the initial distribution of rights, the interested parties can reach a bargain in which everyone is better off and the outcome is efficient.

"Good fences make for good neighbors."

Transaction costs – the costs that parties incur in the process of agreeing to and following through on a bargain.



Ronald Coase

ICLICKER – REEF POLLING

5) The return for deposit system on coke bottles was

A. a command and control policy to address a negative externality.

B. a market-based policy to address a negative externality.

C. a private solution to a negative externality.

VII. Lack of information or asymmetric information, p. 153

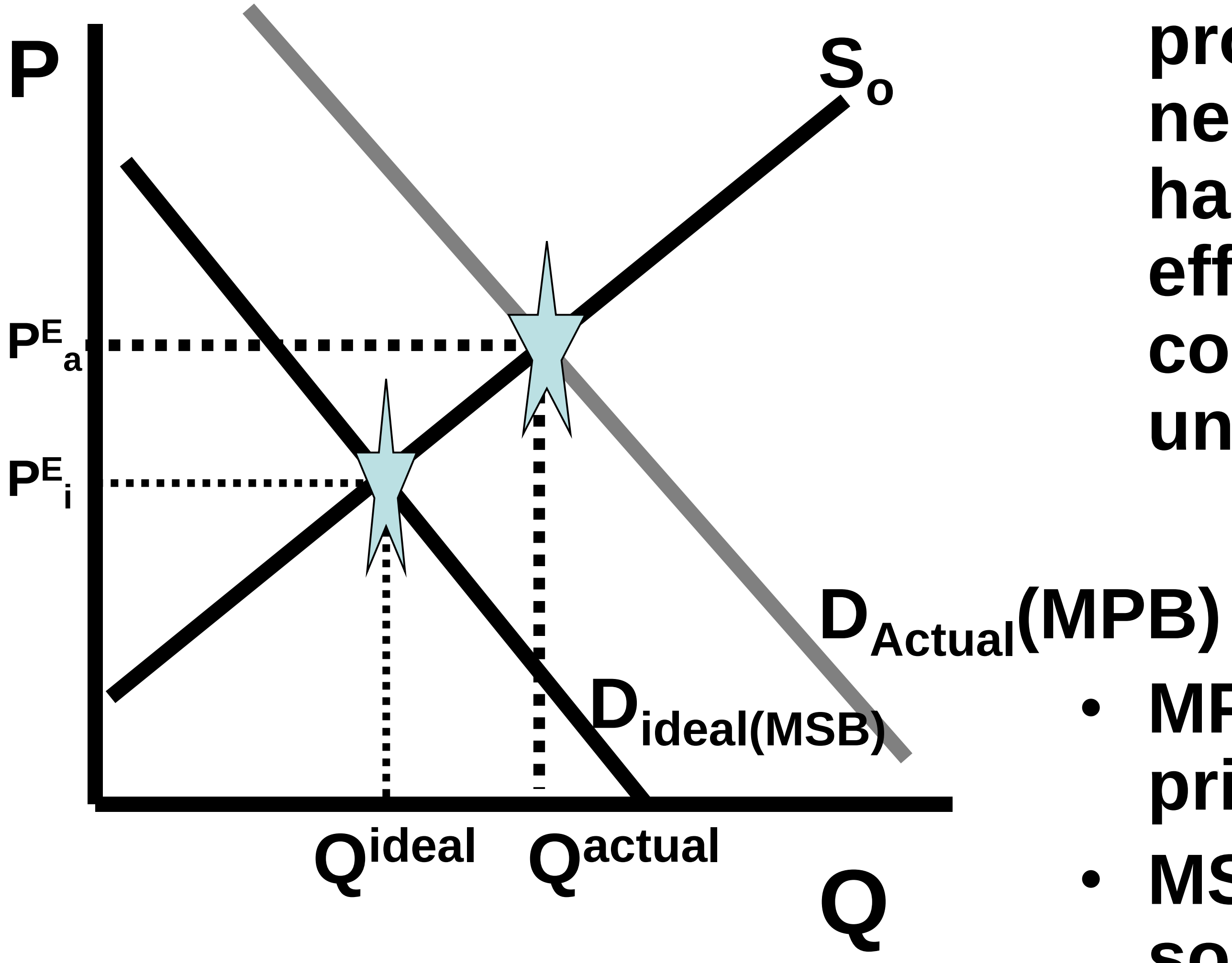
SYMS
SYMS
H&R
INSIDE
WEAPON
Borla
EXHAUST


Newest desgin
KR-808A
KR-808
KR-308
KR-208

III. Lack of information, P. 132 in packet or asymmetric information

- Issue - when something can hurt us and we don't know it
- Market Failure - Real output levels are higher than the true socially optimal output levels

Harmful Product (p. 153)



- **Market where product has negative harmful side effects - consumers are unaware**
- **MPB-marginal private benefit**
- **MSB-marginal social benefit**

- **Government Agencies**
  - **The FDA – Food and Drug Administration**
  - **USDA - US Dept. of Agriculture**
  - **The Health Department**

https://lexingtonhealthdepartment.org/food-protection/

100466	BRIOCHE DOREE	550 S. LIMESTONE	1	99	10/25/17	19	NO
100466	BRIOCHE DOREE	550 S. LIMESTONE	1	100	5/1/18		NO

Drawbacks of this type of government intervention

- Lag time (ex. drug approval)
- Regulation can be costly
- Can limit consumer options

Should it be the role of government to engage in policies to protect consumer safety and to what extent?