**Negative Externalities**

1. What is meant by external costs?
2. In the example [Salmon Industry in Maine](http://milesfinney.net/334/articles/paper.html) why are the dead fish considered an external cost of producing paper?
3. Define Marginal External Cost (MEC).
4. Why does the market overallocate goods that are produced in the face of external production costs?

P

MSC=MPC+MEC

P=5.00

MPC

P\*

P=3.00

D=MPB=MSB

Q= 25

Q\*

Quantity

1. Why would an unregulated market arrive at the equilibrium Q=25?
2. How do we know that social net benefits are not maximized in Q=25?
3. How do we know that the Q\* maximizes social net benefits?
4. Does society make a tradeoff between paper and fish in moving from the market equilibrium of Q=25 to Q\*?
5. What happens to the above diagram if the value of fish increases?
6. What happens to the above diagram if the value of fish decreases?
7. Do any external costs (dead fish) exist at the efficient Q\*?
8. Why is the social benefit of auto use less than the private benefit?
9. Why is the pollution emitting from running autos considered a consumption externality?
10. Why should we also think of auto accidents as an external cost?

P

e

e’

MSC=.19

MPB

MSB

Q’

(242)

Q\*

(200)

Q billions of miles /per month

1. Characterize some of the costs that make up MSC above.
2. What amount of driving above is considered socially efficient?
3. Are social net benefits maximized at Q\*?
4. Does air pollution continue to exist at the efficient Q\*?
5. Do car accidents continue to occur at the efficient Q\*?