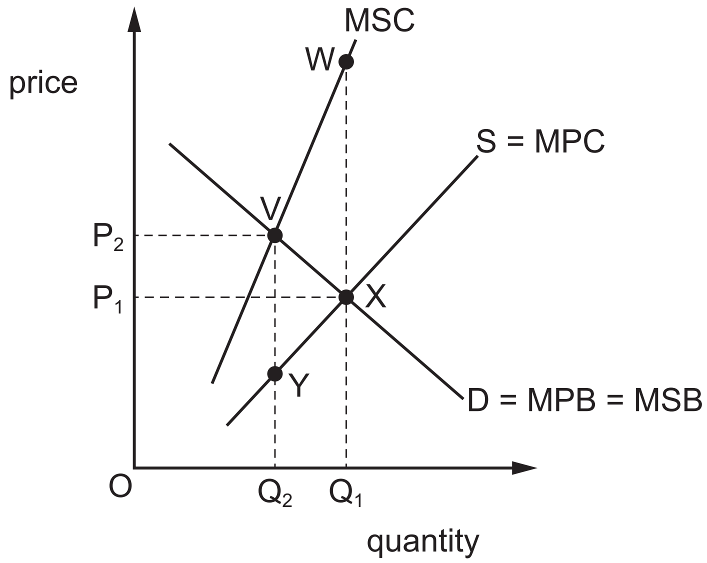
6 The diagram shows market failure caused by negative production externalities.

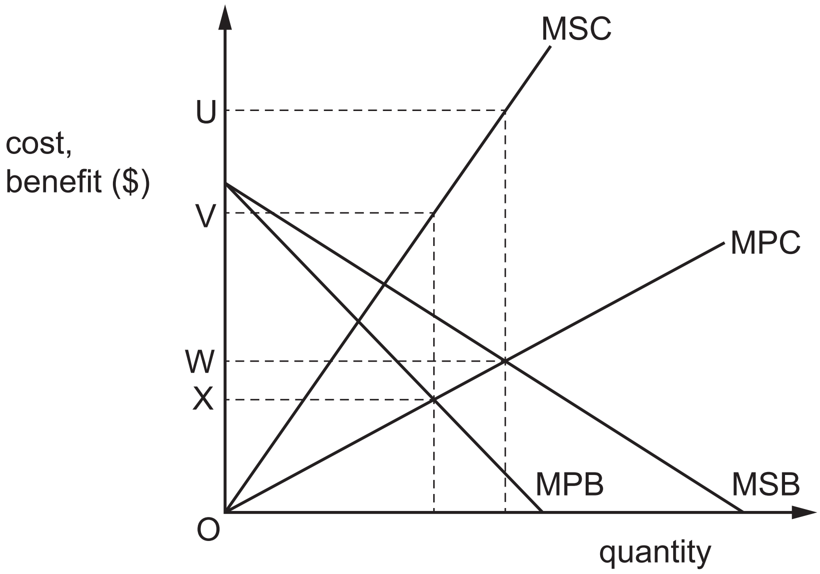


Identify the correct combination of the result of the market failure and the area on the diagram that shows deadweight welfare loss.

	result of market failure	area showing deadweight welfare loss
A	overproduction	VWX
B	overproduction	XYV
C	underproduction	VWX
D	underproduction	XYV

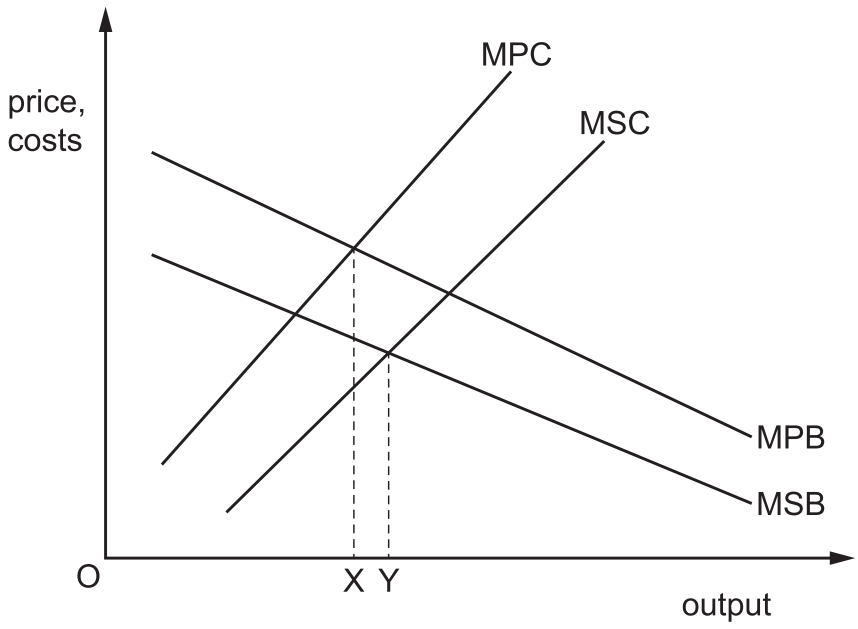
3 The diagram shows the marginal costs and marginal benefits of producing a good in a free market.

What is the marginal external cost when the free market is in equilibrium?



A UW **B** UO **C** VX **D** VO

4 The diagram shows positive and negative externalities of production and consumption.



Which row shows the correct combination of production and consumption externality when economic welfare is maximised?

	position of economic welfare	production externality	consumption externality
A	X	negative	negative
B	Y	positive	negative
C	X	negative	positive
D	Y	positive	positive