

6 Externalities – Part 1 —Answers

Answers

Work through these after you have tried the questions yourself.

2.1 a cost or benefit that falls on a third party who is not part of the transaction.

2.2 negative: pollution (or noise); positive: vaccination (or education).

2.3 it over-produces.

2.4 a tax of \$4 per unit (equal to the pollution cost).

2.5 a subsidy.