**Externalities Questions**

Read the notes and our discussions during lessons to answer the following questions

The demand curve is represented by which curve on the externality diagrams?

The supply curve is represented by which curve on the externality diagrams?

The diagram below has the MSB=MPB curve removed. Shade in the negative externality on the diagram below, then use this to help explain why the welfare loss is a triangle.

MSC

MPC

How do externality diagrams demonstrate that market failure occurs in a free market?

What part does **‘compensation’** play when discussing the concept of externalities?

For the following examples, fill in the table:

Negative Externalities:

|  |  |  |
| --- | --- | --- |
| **Scenario** | **Private Costs** | **Social Costs** |
| **Smoking** |  |  |
| **Textile Factories  on the River Citarum** |  |  |
| **Eating foods that a high in fat** |  |  |
| **Driving a car** |  |  |

**Positive Externalities:**

|  |  |  |
| --- | --- | --- |
| **Scenario** | **Private Benefits** | **Social Benefits** |
| **Regular Exercise** |  |  |
| **Vaccinations** |  |  |
| **Education** |  |  |
| **Service to rehabilitate drug addiction** |  |  |

**Mr Wilson’s Thinking Further Challenge…** How could the government solve a negative externality using taxation? Draw the diagram and what the impact of a tax would be.