Additional Material for Final Exam

EXTERNALITIES (Chapter 10)

Know the definitions of an externality, internalizing an externality, Coase’s Theorem, transaction costs, and a pollution tax (also called a Pigovian tax)
Be able to describe examples of positive and negative externalities
Be able to interpret the graphs of positive and negative externalities

Public solutions:
  1. regulation
  2. taxes and subsidies (also called Pigovian taxes)
  3. tradable pollution permits

Private solutions:
  1. moral codes and social sanctions
  2. charities
  3. relying on the self-interests of the relevant parties
     Coase’s Theorem
     make sure that you can solve a Coase’s Theorem problem (like the one we did in class)
  4. contracts

Problems with private solutions:
  1. transaction costs
  2. bargaining breaks down
  3. too many people affected (difficult to coordinate private bargaining)

Be able to compare and contrast the private and public solutions, focusing on the advantages and disadvantages of each