

EC 131 - Lecture 19

Boston College
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Textbook readings: Chapter 10

1 Externalities

- Social welfare as opposed to welfare of agents involved in transaction
- Negative Externalities
 - Social cost
- Positive Externalities
 - Social benefits/value
- Inefficient social outcome due to externalities
- Public policies
 - Regulation
 - Market-based
 - * Corrective taxes and subsidies, its incentives and informational problems
 - * Tradable pollution permits, its incentives and its market structure problems
- Private solutions
 - Moral code
 - Charities
 - Common agreement (Coase theorem and transaction costs)