



Externalities - Costs and benefits



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Chapter 21
SdP



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Social Costs

The production or
consumption of good will
have costs.



Private costs

Are met by those who consume or produce a good.

Externalities

Are the spillover effects of production or consumption. They affect others and can be positive or negative.

Externalities

Positive

- Job creation
- Site development
- Training & Education
- Research & Development
- New technology

Negative

- Traffic congestion
- Noise pollution
- Air pollution
- Water pollution
- Overcrowding
- Resource depletion

Social Cost

=

private costs

+

external costs

Social Benefit

The production or
consumption of good will
also have benefits.

Private benefits

Are enjoyed by those who consume or produce a good.

Positive externalities

Are the benefits to anyone other than those responsible for economic activity.



Social Benefits

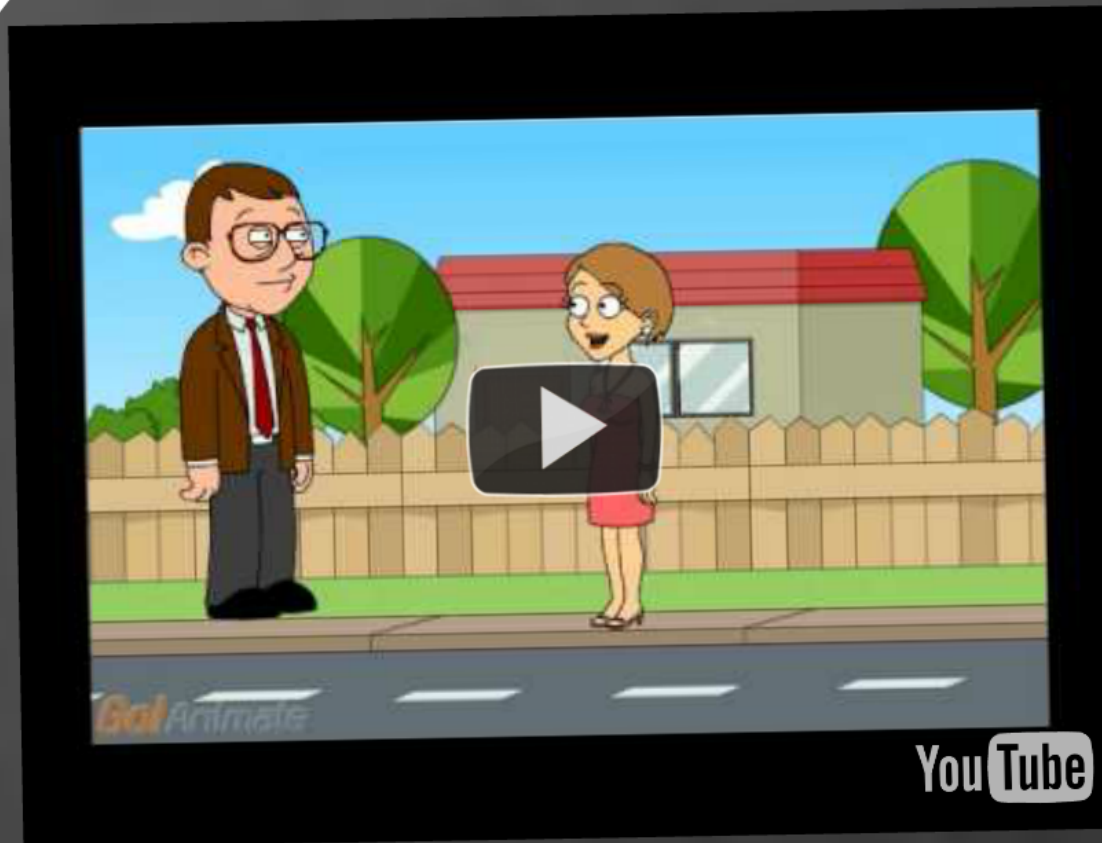
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private benefits

+

external benefits

(positive externalities)



Pause for an exercise

Question 1

Page 93

Text book

Question 1:

- (a) Factory farming may result in a number of negative externalities. For example, there may be an increase in the number of antibiotic-resistant bacteria because of the overuse of antibiotics in factory farming. This could cause health problems to the wider community in the future. Factory farming also results in air quality problems and the contamination of rivers, streams, and coastal waters with animal waste.
- (b) The private benefits of factory farming are the financial benefits to the farm owners. These might be lower costs and higher profits because factory farming is more efficient.
- (c) Social costs are the private costs and negative external costs added together. The private costs will be the financial costs of setting up and running a factory farm and the negative externalities are those outlined in (a) such as contaminated waterways from animal waste. Added together these form the social costs of factory farming.

**Government policies to
deal with externalities**

Taxation

Fines

Subsidies

Government regulation

Other measures

**Any
Questions ?**

HOMEWORK

Economics in practice: London Congestion Charge
Page 95,
Text Book