

Learning Objectives

Chapter 10

In this chapter you will

- Learn what an externality is
- See why externalities can make market outcomes inefficient
- Examine how people can sometimes solve the problem of externalities on their own
- Consider why private solutions to externalities sometimes do not work
- Examine the various government policies aimed at solving the problem of externalities

You should be able to

- Distinguish between a positive and a negative externality
- Demonstrate why the optimal quantity and the market quantity differ in the presence of an externality
- Define the Coase theorem
- Explain how transaction costs may impede a private solution to an externality
- Demonstrate the potential equality of a Pigovian tax and pollution permits