

Short Answer Questions

Chapter 10.

1. Explain the meaning of the term 'externalities'
2. Why is the existence of externalities considered indicative of market failure?
3. Is all pollution socially undesirable? Explain your answer.
4. Why do many countries around the world heavily subsidise education?
5. Why does market equilibrium not necessarily equal the socially efficient outcome?
6. How would an extension of property rights lead to a reduction in negative externalities?
7. Why is it essential that for a Coase solution to be effective there has to be no costs involved in the bargaining process?
8. A factory produces a product which has the unfortunate effect of creating foul smelling fumes which drift over a nearby residential housing area. Outline three possible solutions to this problem and explain the effect on both the residents and the factory of your solutions.
9. Explain why many economists believe that Pigovian taxes are a more efficient solution to market failure than regulation. Use appropriate examples in your answer.
10. In Europe a carbon trading market has been established. What are the key factors to making this market successful in reducing the incidence of carbon emissions into the atmosphere?