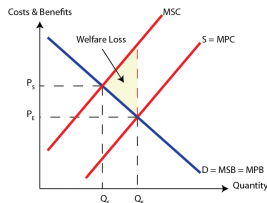


Summary of Externalities



Negative Production Externality



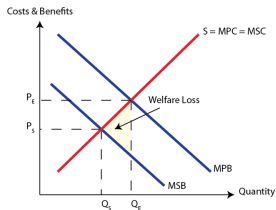
► Examples

- Producers impose external costs on society.
- Production by use of fossil fuels; external costs include global warming, negative effects on health, environmental pollution.

► Policies

- Indirect (Pigouvian taxes), carbon taxes, tradeable permits, legislation & regulation, collective self-governance, education & awareness creation, international agreements.

Negative Consumption Externality



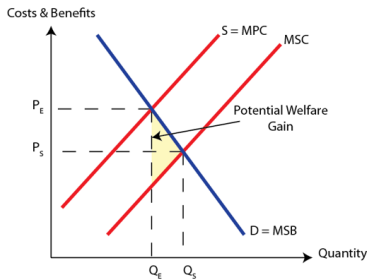
► Examples

- Consumers impose external costs on society.
- Use of cars and heating using fossil fuels; external costs include global warming, negative effects on health, environmental pollution.

► Policies

- Indirect (Pigouvian) taxes, legislation & regulation, education & awareness creation, nudges

Positive Production Externality



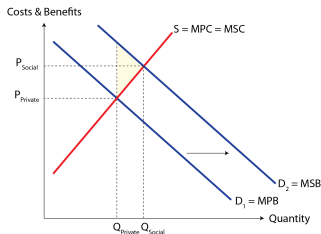
► Examples

- Producers create external benefits for society
- Research by private firms leads to development of new technologies that benefit the whole of society.

► Policies

- Government provision, subsidies

Positive Consumption Externality



► Examples

- Consumers create external benefits for society.
- Education and healthcare lead to benefits for the whole of society, including lower unemployment, lower crime rates, higher economic growth

► Policies

- Legislation & regulation, education & awareness creation, nudges, government provision, subsidies