Positive and Negative Externalities

Positive and Negative Externalities

- The effects of a decision by consumers and producers that has an impact on a third party
  - **Positive Externalities** – beneficial effects on third parties
  - **Negative Externalities** – costs incurred by third parties

Positive and Negative Externalities

- **Costs and benefits in production**:
- External costs in production – where MSC = MSB – MPC
  - e.g. air and water pollution, congestion, housing development on green belt areas, destruction of hedgerows and wildlife, noise, pollution, anti-social behaviour, crime
- External benefits in production – where MSC < MPC
  - e.g. human resource development, research and development in industry

Positive and Negative Externalities

- **Costs and benefits in consumption:**
- External costs in consumption – where MSB < MPB
  - e.g. passive smoking, litter, noise, anti-social behaviour
- External benefits in consumption – where MSB > MPB
  - e.g. preventative health care – vaccinations, public transport, attractive gardens, bathing regularly!

Positive and Negative Externalities

- **External costs** – socially efficient output is less than current output
- **External benefits** – socially efficient output is greater than current output
  - Socially efficient output is where

MSC + MPC = MSB + MPB

Positive and Negative Externalities

- **Measuring positive and negative externalities:**
- Consumer surplus
- Producer surplus
- Willingness to pay
- Net Present Values
- Risk values – probability of an event x monetary value
- **Cost-Benefit Analysis**

Positive and Negative Externalities

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- Weighing up the costs and benefits
- Benefits from production of chemicals/pharmaceuticals and energy
- Costs of generating these products/services