



Handout 11-2



EXTERNALITIES WORKSHEET

Name _____

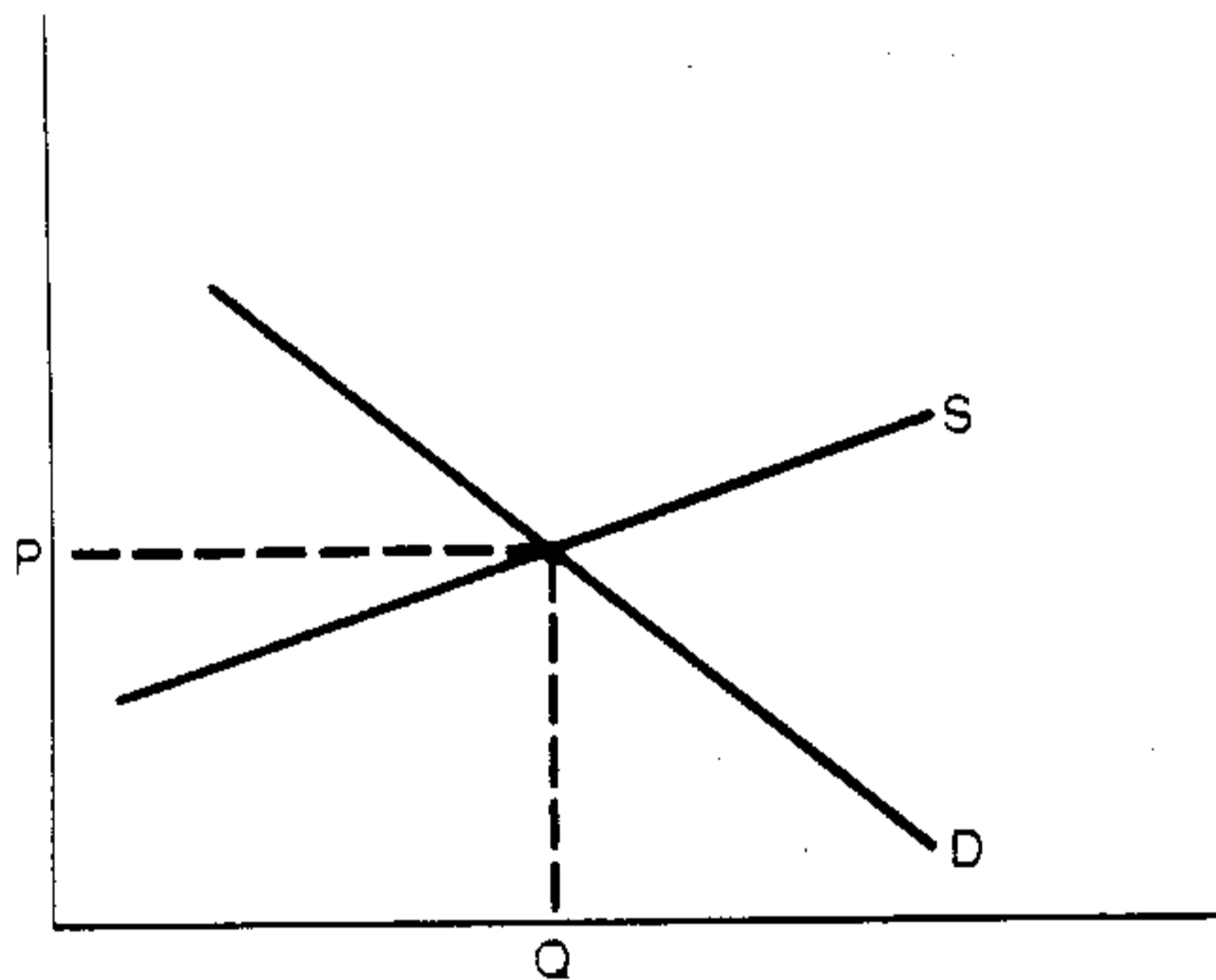
Class _____

1 Define negative externality or third-party cost.

2 Give three examples of third-party costs.

- a _____
- b _____
- c _____

3 In the supply and demand graph below, only the private costs and benefits have been accounted for. Draw the new supply curve, and show the new equilibrium price and quantity for steel if the external costs of pollution were also counted as costs of production.



TONS OF STEEL

4 Would more or less steel be produced according to the new supply curve? _____

5 Would the price be higher or lower? _____

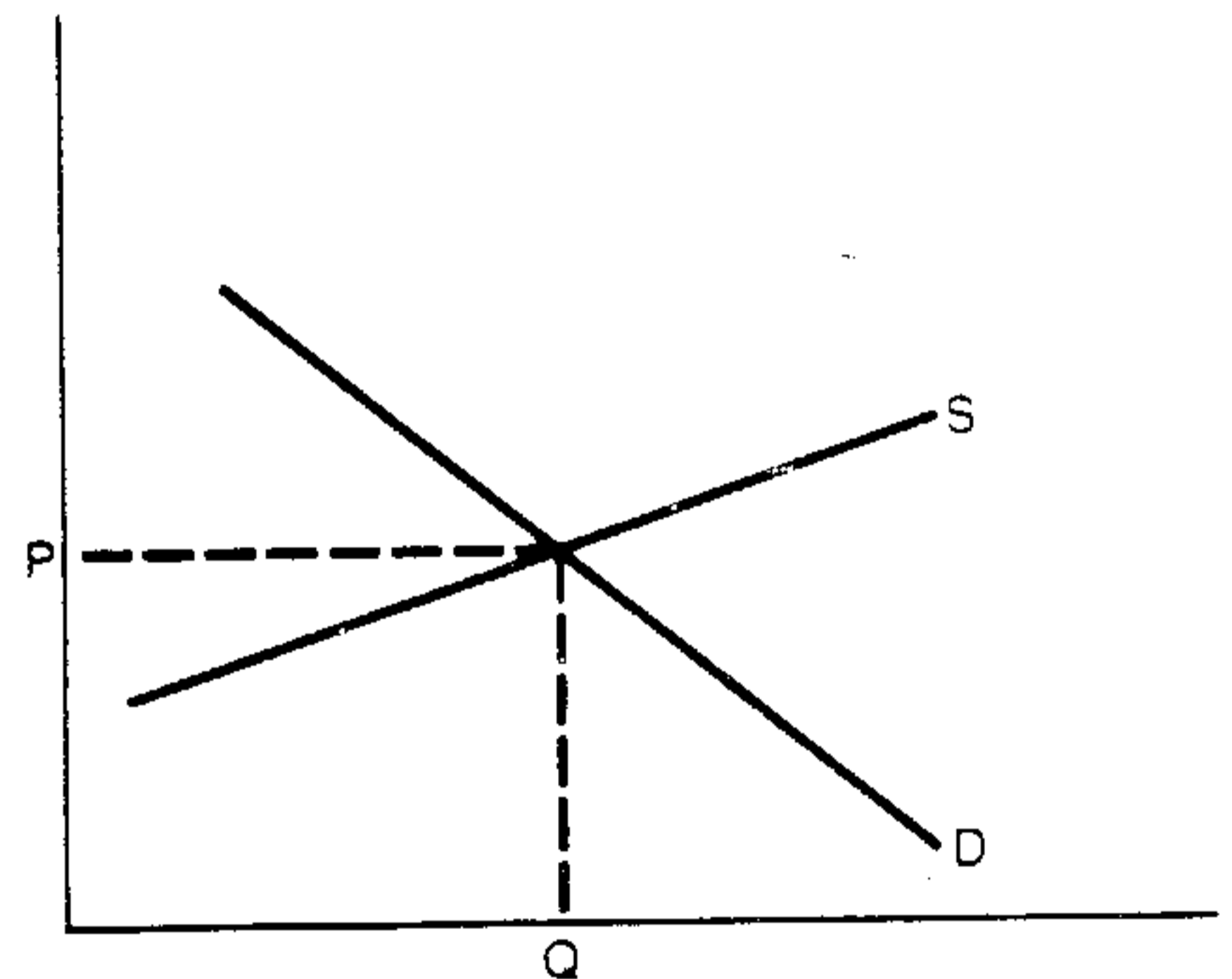
6. Why would it be better not to consider the 3rd party costs of a steel factory?

1 Define positive externality or third-party benefit.

2 Give three examples of third-party benefits.

- a _____
- b _____
- c _____

3 In the supply and demand graph below, only the private costs and benefits have been accounted for. Change the graph to show the new demand curve for education if all the third-party benefits to the community were counted as part of demand. Show the new equilibrium price and quantity.



EDUCATION

4 Would more or less education be available according to the new demand curves? _____

5 Would the price be higher or lower? _____

6. Why would it be better not to consider the 3rd party benefits of education?
