

Externalities Examples

Second Midterm Exam

News

Externalities and Property Rights Redux

Examples of How Economics Contributes to
Efficient Remedies for Third Party Effects

Should the U.S. use a carbon tax or a cap-
and-trade system to lower CO₂ emissions?

What Have We Learned?

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Midterm Examination

The exam is Tuesday, November 3 in class.

It comprises 30-35 multiple choice questions.

It covers material in lectures 10 and 12-18.

The exam is "closed books and notes" and the
honor code will be strictly enforced.

Please bring a Scantron sheet and your UNC ID.

Late comers will be barred.

You may not leave the room during the exam.

Practice questions and the key for back-of-chapter
problems are posted on the web page.

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Exam Advice

Please fill out your Scantron accurately.

There is a one-course-point penalty for
bubbling errors. There were about ten
bubbling errors on the first midterm.

Please start studying now. Most students
find the second midterm more difficult
than the first.

News

The New York Times

IN THEaters
OCTOBER 30TH

September 28, 2009

GREEN INC.

E.U. Alone and Lonely on Carbon

By JAMES HANTER

BRUSSELS — Carbon trading put the European Union in the environmental vanguard.

Since 2005, the trade bloc has operated the world's only continentwide system that puts a cap on
greenhouse gas emissions and that requires major polluters to hold tradable allowances.

But the system has also been the most costly climate policy program in the world," according to Jürgen R.
Thiemann, the president of BusinessEurope, a powerful confederation of industry and employer groups.

Review Externalities and Property Rights

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What Are Externalities?

Externalities are the costs (and sometimes benefits) that are not experienced directly by producers and consumers of goods.

Externalities "spill over" onto third parties.

Externalities are generally negative...but sometimes positive.

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Externalities Interfere with Efficient Allocation of Resources.

For most goods, the total social cost of production and consumption are reflected in the price of the good.

For goods with third party effects, the total social cost and benefit of production and consumption are not wholly reflected in the price of the good.

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Externalities Interfere with Efficient Allocation of Resources.

When negative externalities are associated with production or consumption of a good, too much of the good is produced and consumed.

When positive externalities are associated with production or consumption of a good, too little of the good is produced and consumed.

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Ronald Coase Explains The Connection between Externalities And Property Rights

If bargaining is not costly and
If property rights are secure
Then
Agents can bargain over externalities
and achieve an efficient outcome.

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Use Your Clickers To Answer
The Following
Graded Question.

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Pollution Decision	Value of the Mill	Value of the Fishery
High Discharge	\$5000	\$2000
Low Discharge	\$1000	\$3000

If the Fishery has the right to block the mill from a high rate of discharge of pollution then...

- A. The Fishery will prefer to exercise its right and keep pollution low.
- B. The Fishery will achieve the social optimum by keeping pollution low.
- C. The Mill will pay the Fishery over \$4000 for the right to pollute. Fishery will go out of business because of pollution.
- D. The Mill will achieve the social optimum by buying the right to pollute from the Fishery.

Markets and Third Party Effects

Under the Clean Air Act Amendments of 1990, the U.S. Environmental Protection Agency (EPA) established the Acid-rain Abatement Program that authorized the creation of a sulfur dioxide (SO₂) allowance trading system.

An air pollution allowance trading program introduces market forces into pollution control, harnessing the incentives of the free market to reduce pollution.

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