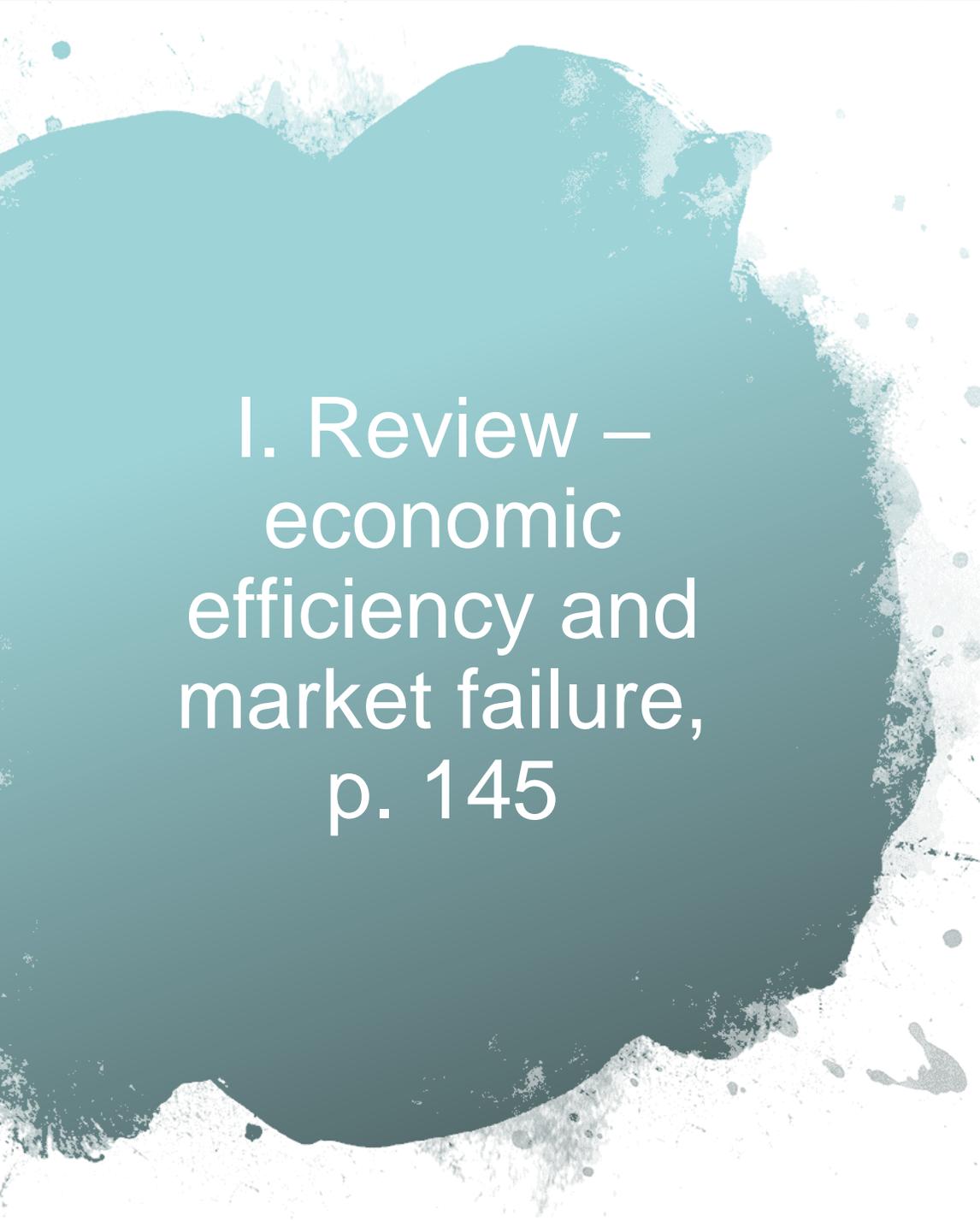


**The Economics of
the Public Sector:
Chapter 10:
Externalities and
Asymmetric
Information, p. 145**



- I. Review – Economic Efficiency and Market Failure**
- II. Externalities**
- III. Negative Externalities**
- IV. Positive Externalities**
- V. Public Policy toward Externalities**
- VI. Private Solutions to Externalities**
- VII. Asymmetric Information**

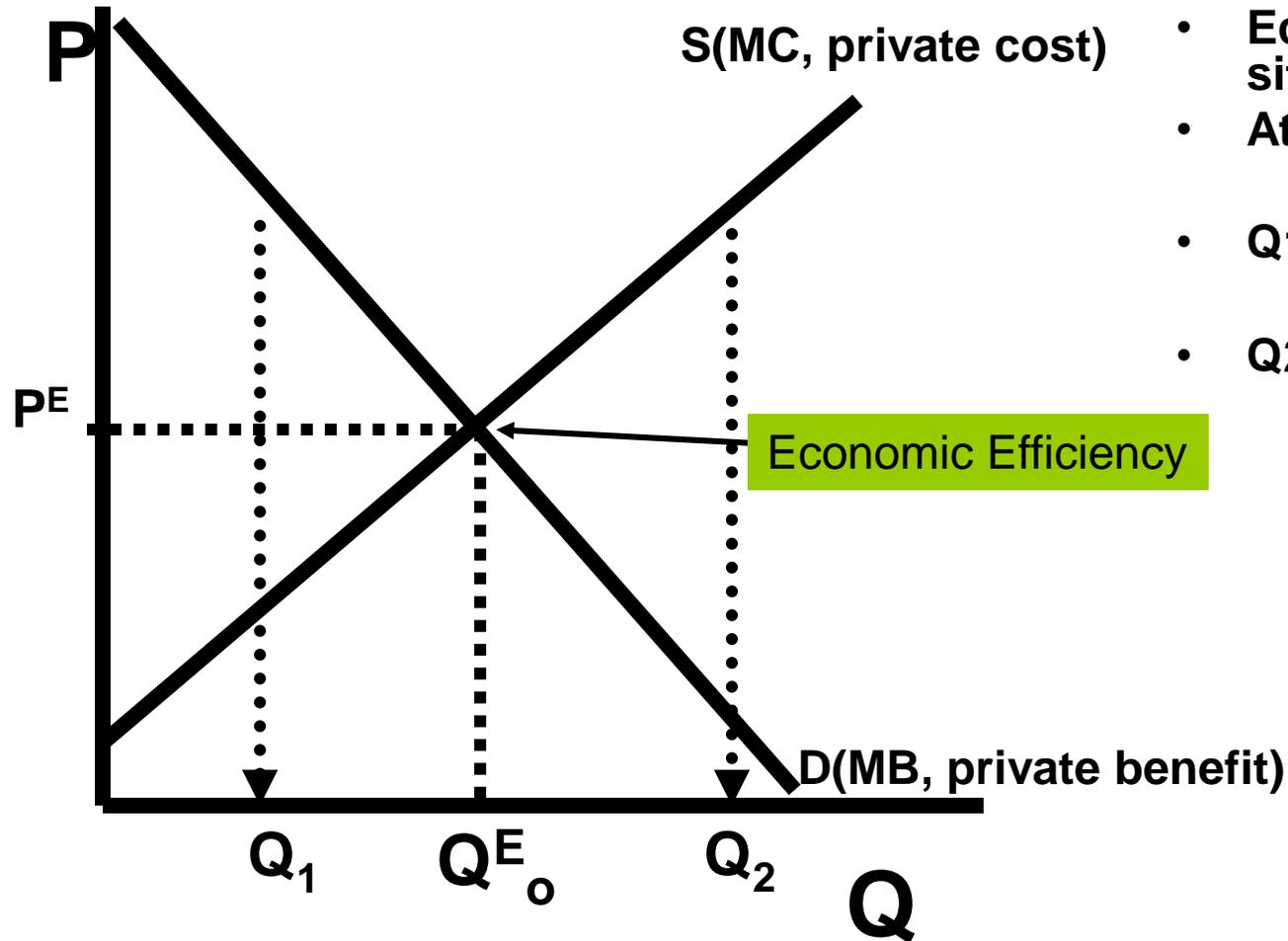


I. Review –
economic
efficiency and
market failure,
p. 145

The Mixed Economy in the U.S.

- **Why Markets are Useful**
- **Trade Creates Value**
- **The Invisible Hand**
- **Efficient Resource Allocation**
- **Resources allocated to the highest valued production**

Economic Efficiency Graphically, p. 145
(from a broad social viewpoint, not individual viewpoint)



- Economic Efficiency-A situation that occurs
- At Q₀ MB=MC efficient
- Q₁(MB>MC) inefficient
- Q₂ (MB<MC) inefficient

Assumptions for an Efficient Market Outcome



1) Well Defined Private Property Rights



2) Competitive markets



3) No Externalities



4) Information-available and accurate



Functions of government, p. 145

- Protective-government maintains a framework of security and order – an infrastructure of rules within which people can interact peacefully with one another.
- Productive-government sometimes produces products that private markets do not produce at efficient levels.

Externalities

**Two sources of
market failure**

**Asymmetric
Information**

II. Externalities, p. 146

- Externality -Third party affected by market transaction (the uncompensated impact of one person's actions on the well-being of a bystander.)
- Can be the result of production and/or consumption activities.

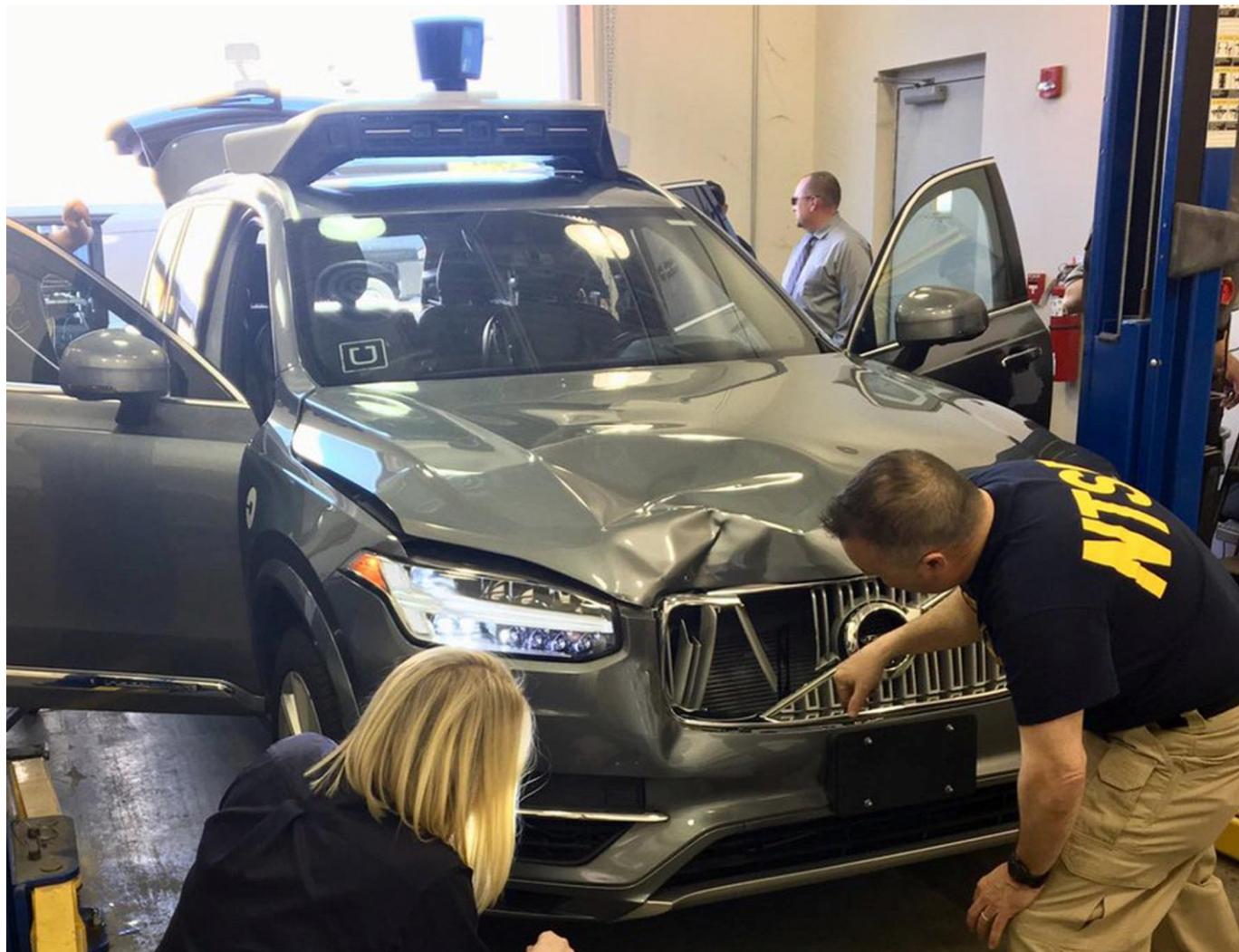


Cologne

- “eau de toilette”
- Positive or negative externality?



Fatalities from self- driving cars



External Costs

- **Pollution**
- **Second Hand smoke**
- **Roommate's Bluetooth speaker**
- **Accidents from drunk driving**
- **Accidents from cell phone use in car**
- **Flying beer bottles during NCAA basketball tournament**
- **Classroom distractions from students using phones and laptops for nonclass-related activity**









HEY CAN U TURN UR COMPUTER TO THE LEFT A LIL SO I CAN SEE

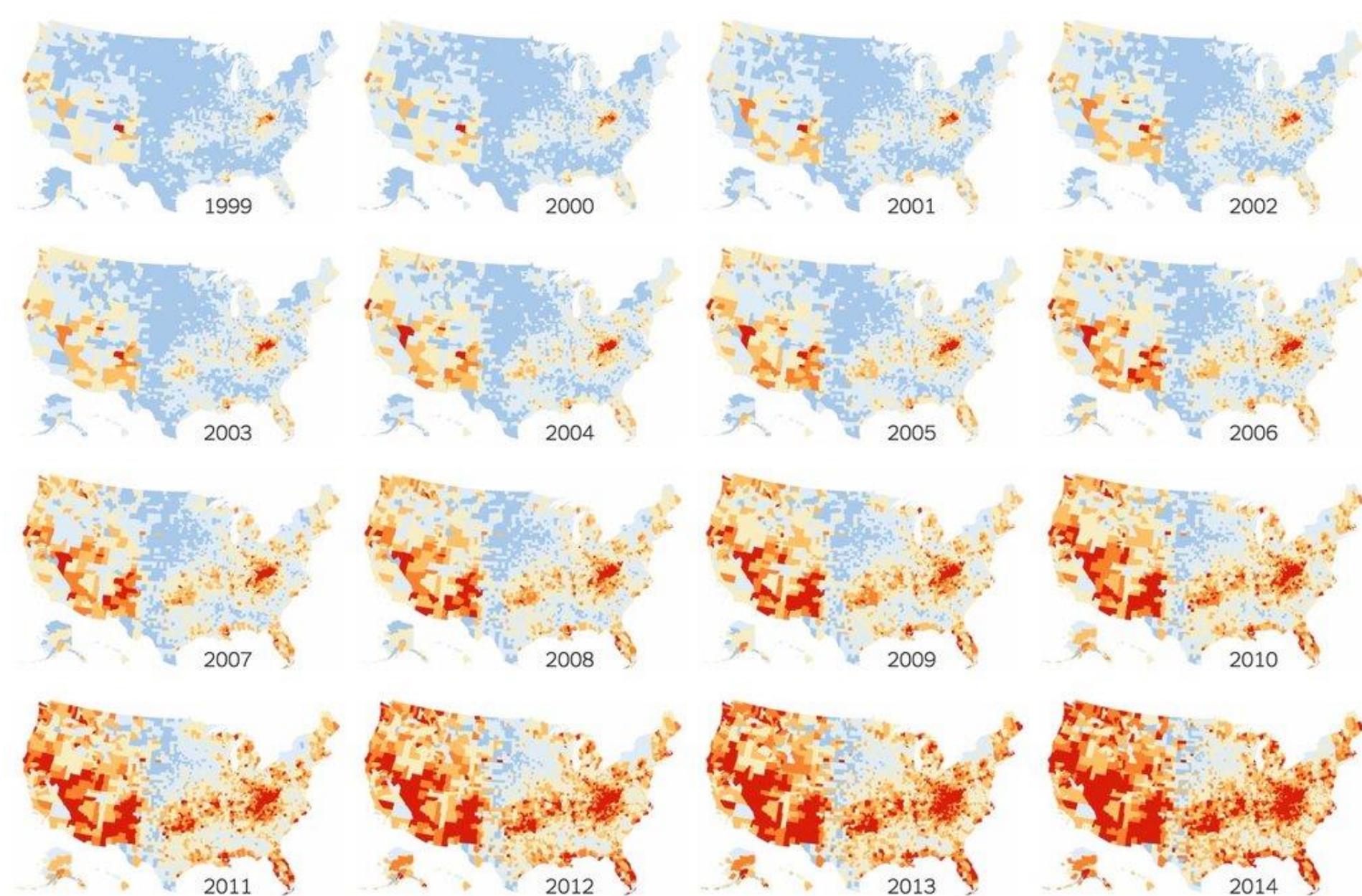




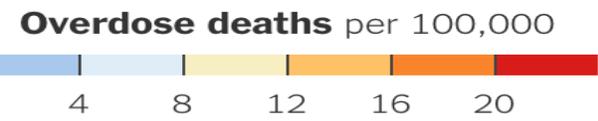
The externalities of plastic - video

<https://www.youtube.com/watch?v=w0pKGAaeUIM>





OPIOID CRISIS IN THE U.S.



Overdose deaths in 2015 per 100,000



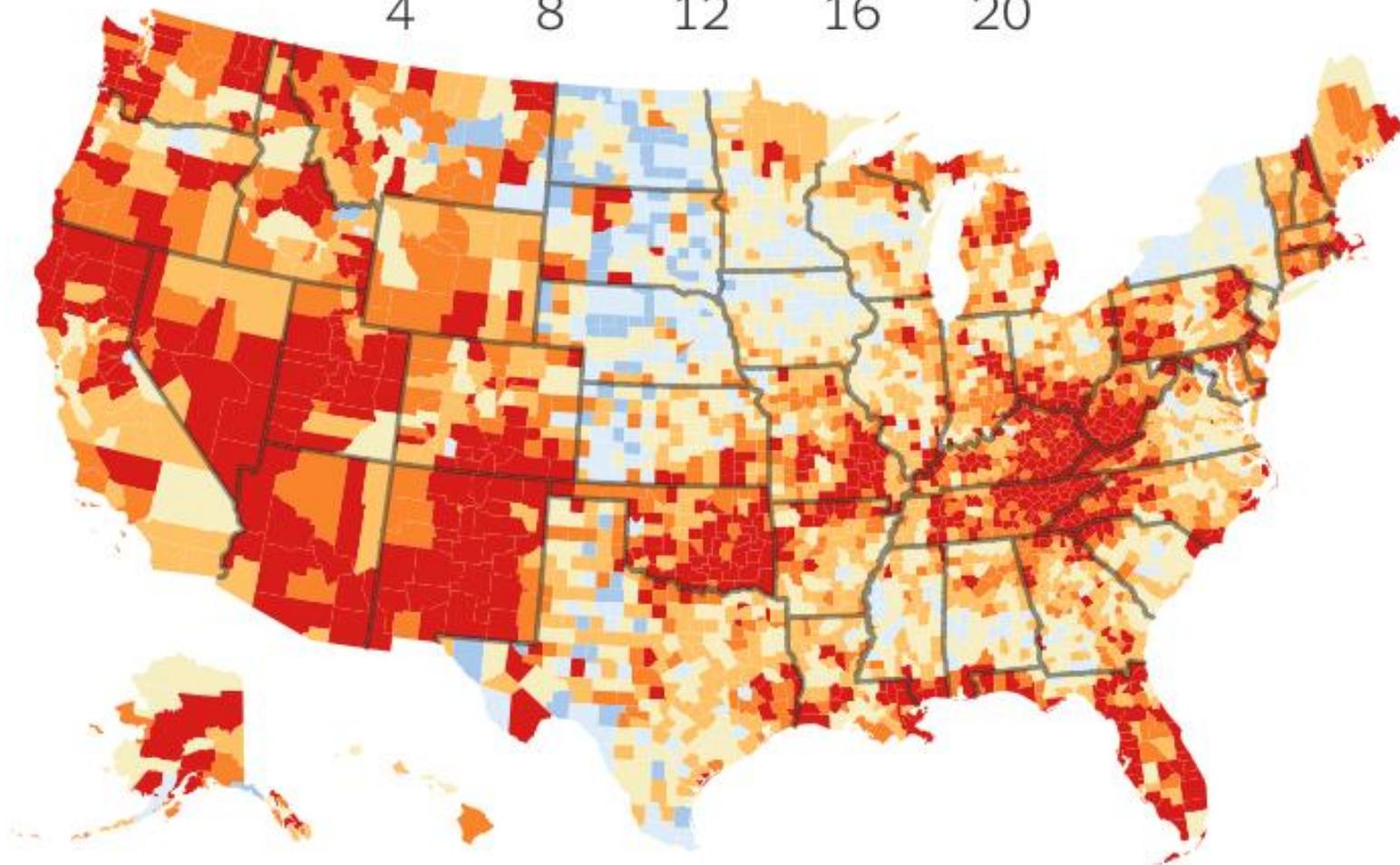
4

8

12

16

20



What are the
EXTERNAL costs of
opioid use?

External Benefits



- **Neighbor's landscaping**
- **Roommate's Bluetooth speaker**
- **Your Education**
- **Vaccinations – flu shots**
- **Technology Spillovers**

How externalities lead to "market failure"

- **Market does not take into account costs and benefits to third parties.**
- **When negative externality present:**
- **Market OVERPROVIDES the good from society's point of view**
- **When a pos. ext. is present:**
- **Market UNDERPROVIDES the good from society's point of view.**
- **Socially Optimal Output Levels**

