

Chapter 12 Project

Environmental Protection and Negative Externalities

Purpose

In this chapter, you learned about externalities that affect third parties that are not directly involved in the supply and demand for a good or service. Negative externalities impose costs on third parties, while positive externalities result in benefits to third parties. Negative externalities may be addressed by command-and-control regulations, market-oriented tools, or better-defined property rights. We also learned that there is a tradeoff between economic growth and protecting the environment.

The purpose of this exercise is to help you identify some familiar externalities and suggest how they may be addressed, as well as help illustrate the tradeoff between economic growth and environmental protection.

Directions

This exercise has two parts. In the first part, you will determine if a negative or positive externality occurs in a transaction. If a negative externality occurs, you will suggest a type of policy to deal with it. In the second part, you will demonstrate the tradeoff between economic growth and environmental protection.

Part 1 - Externalities

1. In the following table:
 - a. Indicate whether each situation is an externality.
 - b. If the situation is an externality, explain whether it is positive or negative.
 - c. For negative externalities, which of the three categories of solutions (command-and-control regulation, market-oriented tools, or better-defined property rights) would you suggest to address the negative externality?
 - d. In the last three rows of the table, list some negative externalities that you have encountered and suggest a policy solution.

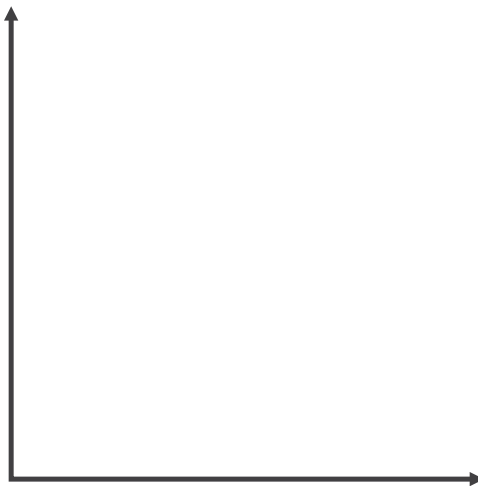
Situation	Externality? Positive or Negative?	Policy Solution
Your neighbor's dog barks all night.		
Everyone in your dorm gets a flu shot.		
You buy a new iPad at Best Buy.		
The pollution from the paper mill in your town causes many people to have asthma attacks.		
Many people text while they are driving.		

	negative externality	
	negative externality	
	negative externality	

Part 2 - The Tradeoff Between Economic Growth and Environmental Protection

Suppose that every summer you help your family with their lobster fishing business in a small town where the only industry is lobster fishing. Due to over fishing and climate change, the lobster population is quickly decreasing. The Environmental Protection Agency is considering using a quota (limiting the number of lobsters that can be caught each summer) or possibly prohibiting lobster fishing for several years.

1. Explain the tradeoff between environmental protection and economic growth that this situation presents and sketch a production possibilities graph to show it.



2. Can you think of another situation familiar to you that illustrates the tradeoff between economic growth and environmental protection?

 Checklist**Part 1**

- Indicate/classify the externalities.
- Suggest solutions for negative externalities.
- Provide your own negative externalities and suggest possible solutions.

Part 2

- Explain tradeoff between environmental protection and economic growth.
- State another situation that illustrates the tradeoff.