

Positive Externalities

**AS Economics Presentation
2005**

Positive Externalities

- Positive externalities create external benefits to 3rd parties
- Activities said to generate positive externalities include:
 - Social returns from investment in education & training
 - Positive benefits from health care and medical research
 - Improved social health outcomes arising from vaccination and immunization programmes
 - Provision of flood protection systems & fire safety equipment
 - Restored historic buildings and monuments
 - External benefits from people's usage of public libraries and museums
 - Inoculations reduce incidence of meningitis

Positive Externalities



Flood protection schemes, immunization and galleries and museums all provide external benefits



Left to itself, would the free-market fail to provide sufficient products that yield positive externalities?



Positive Externalities

- With positive externalities the social benefit $>$ private benefit
- Individual consumers may under-value and under-consume merit goods again leading to a form of market failure
- The under-valuation of the private benefit of consuming a product may be as a result of imperfect information

Private and Social Benefits

- Private benefits
 - The utility or satisfaction derived from consumption (for a consumer)
 - The revenue accruing to a producer from supplying an output
- Social benefit
 - $\text{Social benefit} = \text{Private benefit} + \text{External benefit}$
- Positive externalities
 - Activities where the external benefit is positive
 - $\text{Social benefit} > \text{private benefit}$
- Negative externalities
 - Activities where consumption creates a negative external benefit (i.e. disutility)
 - $\text{Social benefit} < \text{private benefit}$

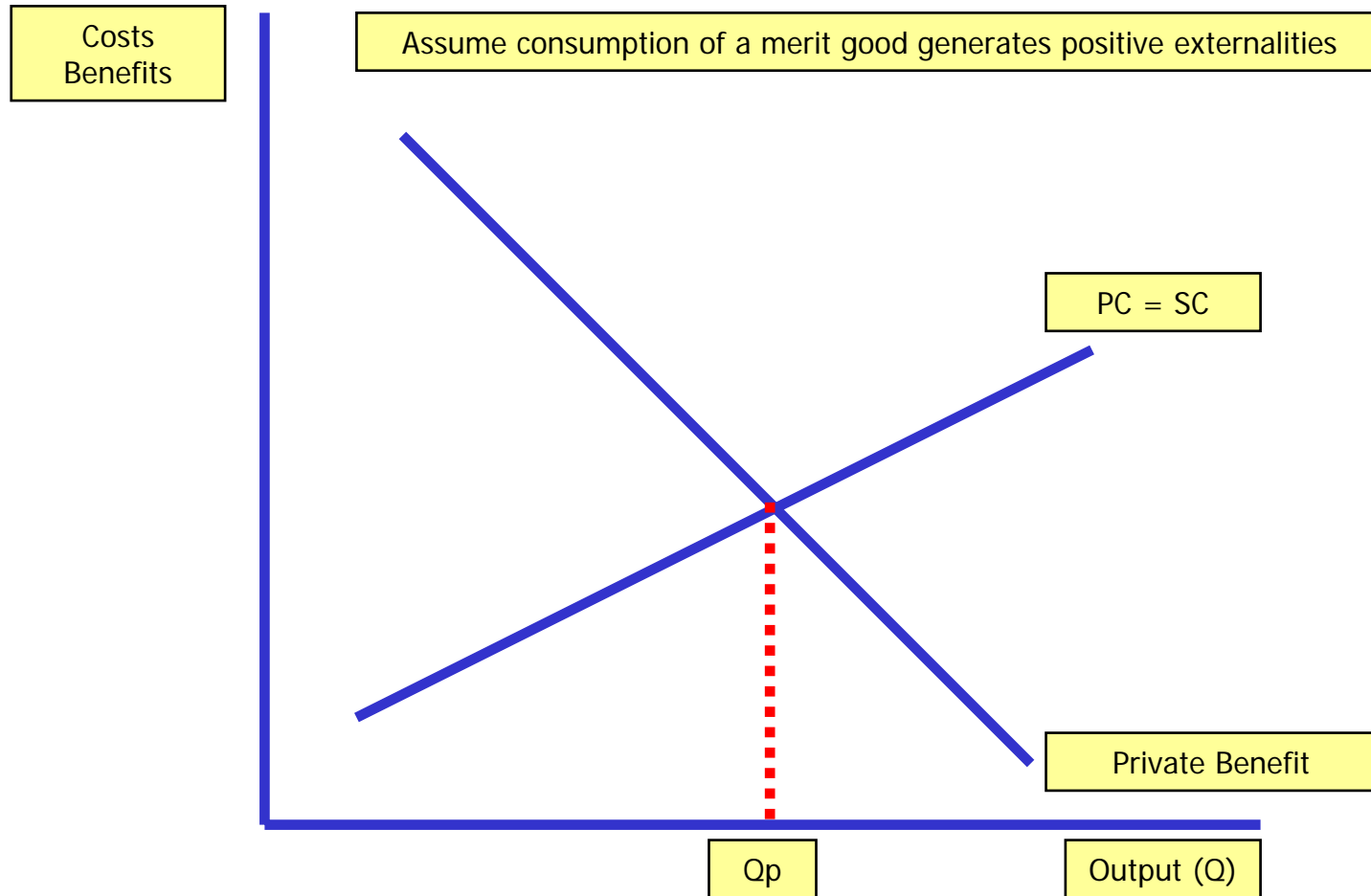
Social Returns: The External Benefits from Education

- Improved social skills and awareness of citizenship
- Greater long-term contribution to the economy
 - Higher Productivity
 - Improved Employability
 - Impact on overall economic competitiveness from an improvement in human capital
 - All of the above should help to contribute to a higher underlying trend rate of growth
- Higher expected earnings might provide increased tax revenues for the government
- Diffusion of knowledge and understanding

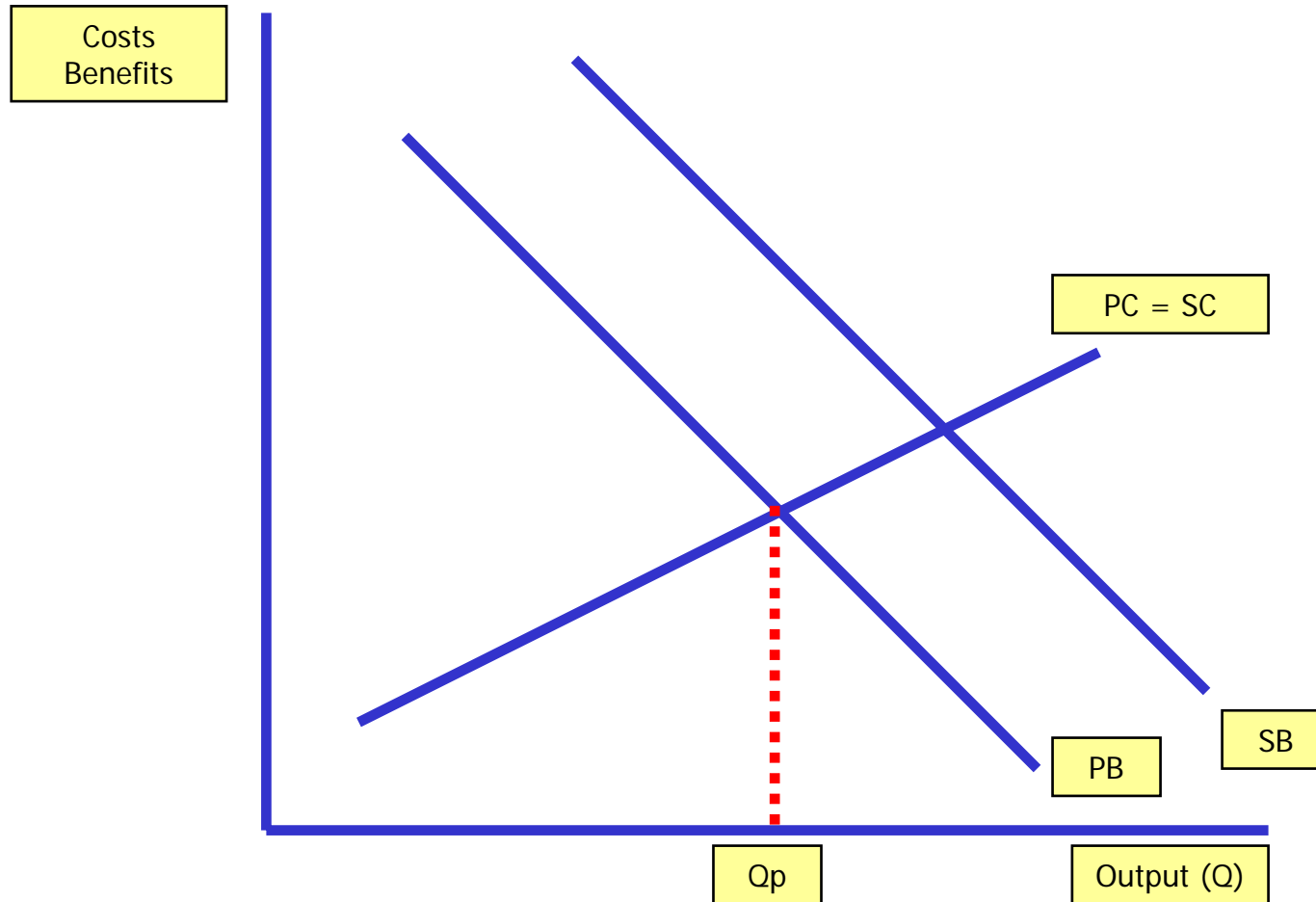
Positive Externalities: Encouraging Consumption / Provision

- Government subsidy
 - Designed to reduce the private cost of consumption or reduce the cost of supply
 - Lower costs should cause an expansion of demand
 - Student grants and low-cost loans?
 - Subsidies to fund free entrance to museums and other heritage sites
- Command and Control techniques
 - Minimum school leaving age
 - Compulsory health immunisation programmes
- Improved information flows to potential consumers
 - Health awareness programmes

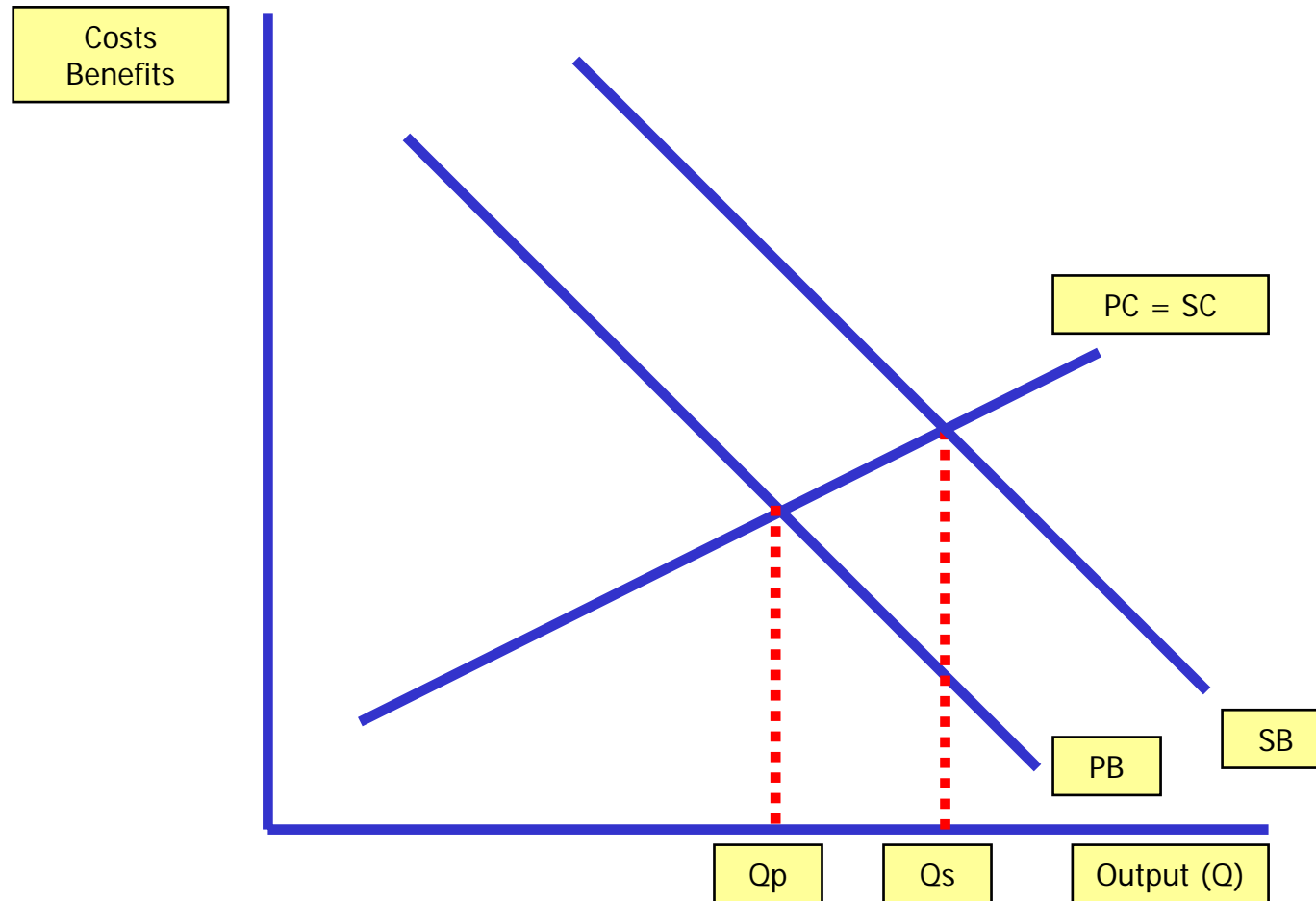
Positive Externalities & Social Welfare



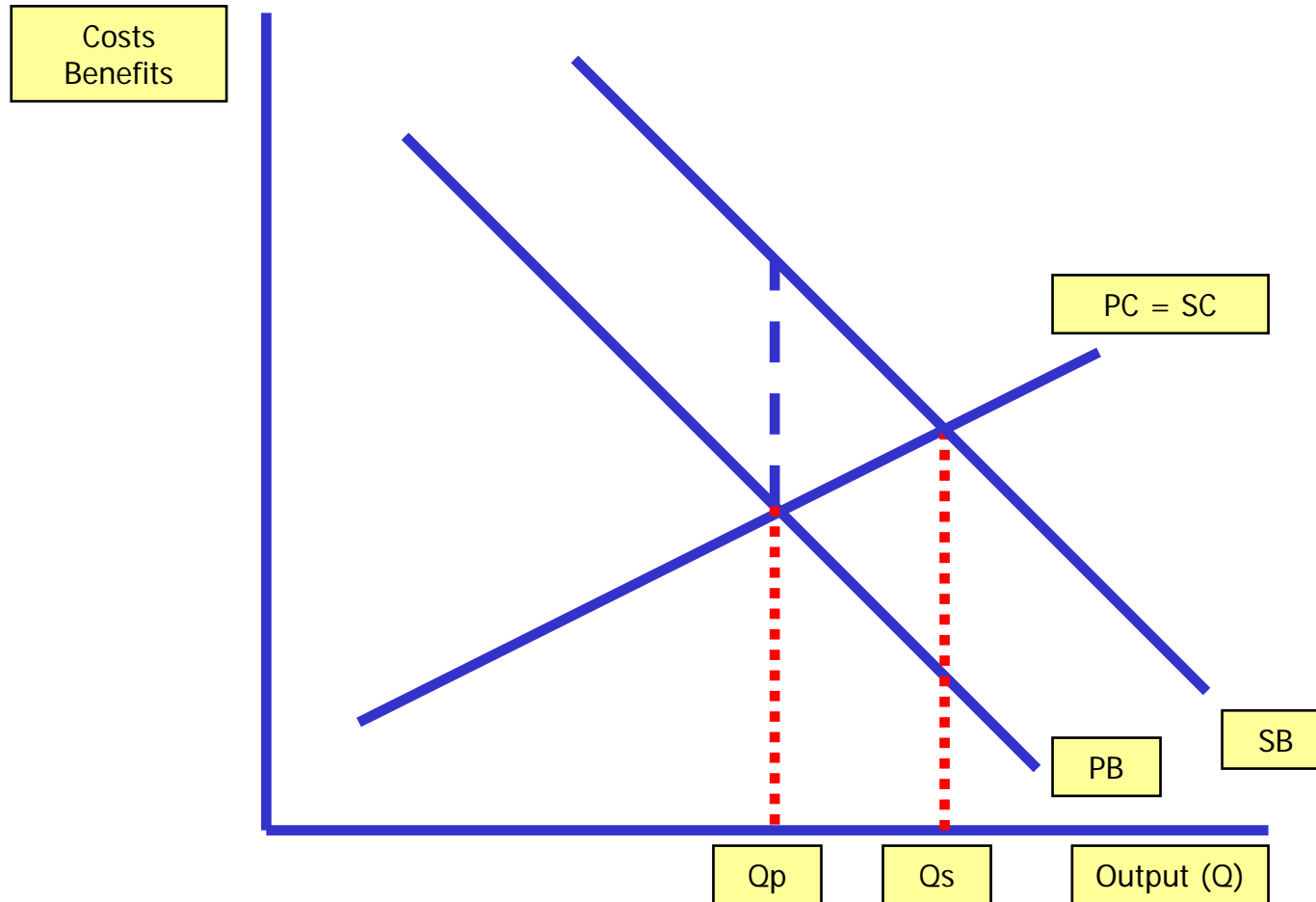
Positive Externalities & Social Welfare



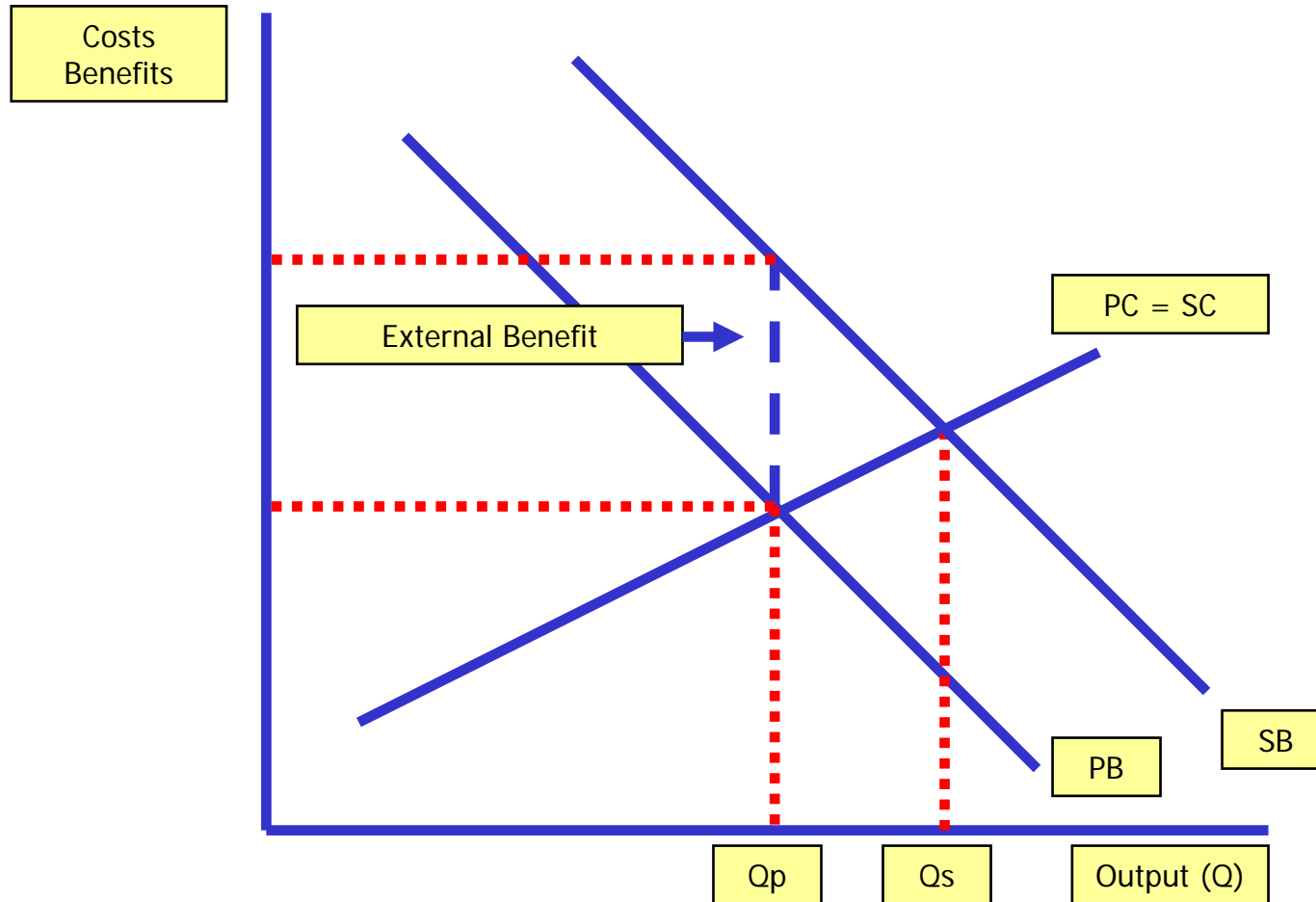
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