**RWS#8: Market Failure #3 –**

**Production Externalities**

**Due for: Monday 25th March 2019**

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| **GENERAL INSTRUCTIONS:**Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you **2.25 to 3 hours** to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there maybe a few extras I want you to read.This revision worksheet should be taking you 2.25 hours minimum…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGEALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK |
| **SOURCES****Compulsory*** Course Textbook (access through library website or link from previous email) – pp 104-105 (read these pages – it is vital that you do so)
* Class and PREP homework notes (in your bag!). Remember to include the PREP work from half-term as well.
* See the powerpoint slides on GOL for access to my notes and the videos of these two diagrams.

**EXTENSION (IF YOU HAVE TIME, TRY TO READ OR WATCH THESE)**Economics Help WebsiteTutor2U Website**ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** **ods@godalming.ac.uk** |

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| **SPECIFIC INSTRUCTIONS:****TITLE: RWS8 – Production Externalities****Background to Environmental Issues Globally and in the UK (1/4 a side of A4)**1. What does ‘climate change’ refer to? What is the debate over energy use? Quick introduction.
2. Define the concept of sustainability and explain what ‘degradation’ and ‘depletion’ refer to with examples
3. Provide some statistics of the to highlight the main problems of energy use and climate change
4. Relate the concept of ‘negative externalities’ to climate change to explain why it is a problem
5. What production of goods can create ‘positive externalities’ that combat climate change?

**Market Failure – Production Externalities: Why is the market failing? (1/2 a side of A4)**1. Draw an externality diagram for negative externalities in production for the burning of fossil fuels. Identify the free market equilibrium, explain why there is a market failure and identify the MSC, MPC and MEC on your diagram at the free market quantity.
2. Explain your diagram – what is the problem with firms not fully taking the social cost of production into account?
3. Draw an externality diagram for positive externalities in production for the production of renewable energies (solar panels etc.). Identify the free market equilibrium, explain why there is a market failure and identify the MSC, MPC and MEC on your diagram at the free market quantity.
4. Explain your diagram – what is the problem with firms not fully taking into account the social cost of production into account?

**Market Success – Why might production externalities not be a problem? (1/4 side of A4)**1. Talk about how markets might solve the climate change issue by other markets springing up (e.g. the move over to renewable energies?)
2. Also talk about how it is hard to place monetary values on every cost and benefit? Does this place the market failure theory in doubt?

**Government Intervention and Failure to correct this Market Failure (1 side of A4)**Complete this table using your notes from the PREP work and in class debates:

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|  | **BRIEF HISTORY** | **Advantages**(Government Intervention Success) | **Disadvantages** (Government Failure) | **Brief Conclusion** |
| **PRICE MECHANISM ALTERATIONS:** The Climate Levy and Carbon Tax in the UK |  | Remember to draw a diagram showing the effect of a tax on the market for foods high in sugar |  |  |
| **PRICE MECHANISM ALTERATIONS:** UK Government providing subsidies to the UK |  | Remember to draw a diagram showing the effect of a subsidy on the market for healthcare |  |  |
| **DIRECT CONTROLS:** Regulation through international co-operation |  | Remember to draw a diagram showing the effect of regulation in combatting a negative externality in production (the diagram will be the same for both interventions – hint: think MPC?) |  |  |
| **DIRECT CONTOLS:** Regulation through tradable permits |  |  |  |
| **Overall Conclusion** (which is the best intervention and why?) |  |

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