Business

EEL: Business and the Environment

# What are the costs and benefits of business activity?

# When businesses produce and sell products or services it is relatively easy for them to see the costs involved and the benefits they will gain.

# These are known as PRIVATE COSTS (e.g. wages paid to employees, costs of advertising) and PRIVATE BENEFITS (e.g. Total revenue earned from sales, any resulting profit and the dividends paid to shareholders).

# However, businesses may also create SOCIAL COSTS due to EXTERNALITIES. Externalities occur when private costs are different to social costs and private benefits are different to social benefits.

# Social costs are made up of the private costs of the business plus NEGATIVE EXTERNALITIES (the costs to the rest of society).

# There may also be POSITIVE EXTERNALITIES which result from the business. It may create other jobs in the area. SOCIAL BENEFITS are the private benefits to business plus positive externalities (the benefits to the rest of society).

# There are obvious problems that result from negative externalities. Many externalities affect the environment

# Taken from HJR page 734

# Environmental Issues (negative externalities)

# Air pollution

# Water pollution

# Congestion and noise pollution

# Destruction of the environment

# Waste disposal

# Environmental pressures on firms

# Government intervention, activists and consumers can all pressure firms to be more environmentally friendly (e.g. to reduce emissions, to recycle, reduce waste etc.). This can:

# Affect the way the good or service is produced

# Affect what is produced

# Increase costs

# Prevent certain production processes/products

# Provide market opportunities e.g. for firms producing environmentally friendly goods

# NOTES ON TYPES OF ENVIRONMENTAL COSTS

**(Negative externalities)**

**Define /explain each environmental cost and provide examples**

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| **AIR POLLUTION** |
| **WATER POLLUTION** |
| **NOISE POLLUTION** |
| **CONGESTION** |
| **DESTRUCTION OF THE ENVIONMENT** |
| **WASTE DISPOSAL** |
| **CLIMATE CHANGE** |