

**Name:**

**Fall 2017**

## **Principles of Macroeconomics**

### **Week 6 - Externalities**

1. What is an externality?
2. Why do we have a problem when there is an externality?
3. Is an externality always bad? Given an example of a positive externality and a negative one. Make sure you elaborate how the externality is happening (i.e. who is being affected).
4. In graphs show the positive and negative externality that you just discussed.
5. For the following cases, identify whether there is a positive or negative externality and draw the corresponding figures to show the market and socially efficient equilibria.
  - a) A private rock concert in a residential neighborhood.
  - b) The establishment of a federal prison right next to a town.
  - c) Amazon opening up a second headquarters in downtown Detroit.
  - d) Lousy neighbors who pile up their trash on the sidewalks just outside their fence.
  - e) A coal fired power plant right next to a school.
  - f) High unemployment in an area that leads to social unrest.
  - g) Driving during rush hour.