

Handout for Session 7 - Four Models of Externalities

[Link to Powerpoint](#)

Space to practice the 4 Externality Models

Positive Externality

Consumption

Production

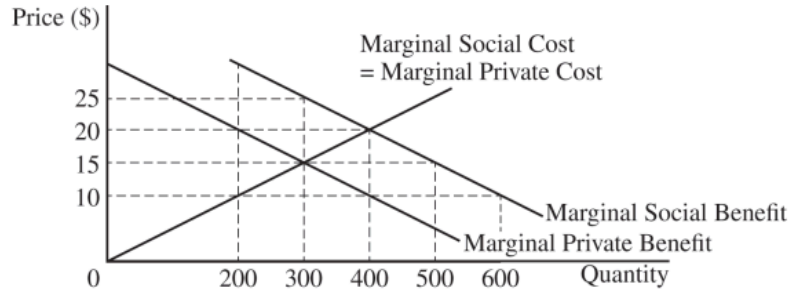
Negative Externality

Consumption

Production

From 2024 AP Micro Exam #2 (set 1)

2. Good X is produced and sold in a perfectly competitive market. The provided graph shows the market for Good X.



- (a) Identify the market equilibrium price and quantity.
- (b) Calculate the deadweight loss at the market equilibrium. Show your work.
- (c) Suppose the government wants to eliminate the deadweight loss in the market for Good X.
- Which of the following will achieve the government's objective: a per-unit tax on consumers or a per-unit subsidy to consumers? Explain.
 - What is the dollar value of the per-unit tax or per-unit subsidy identified in part (c)(i) ?
- (d) Suppose instead the government imposes a price ceiling of \$10. Will the price ceiling achieve the socially optimal quantity of Good X? Explain.