

4

THE ECONOMICS OF THE PUBLIC SECTOR





10

Externalities

Figure 1 The Market for Aluminum

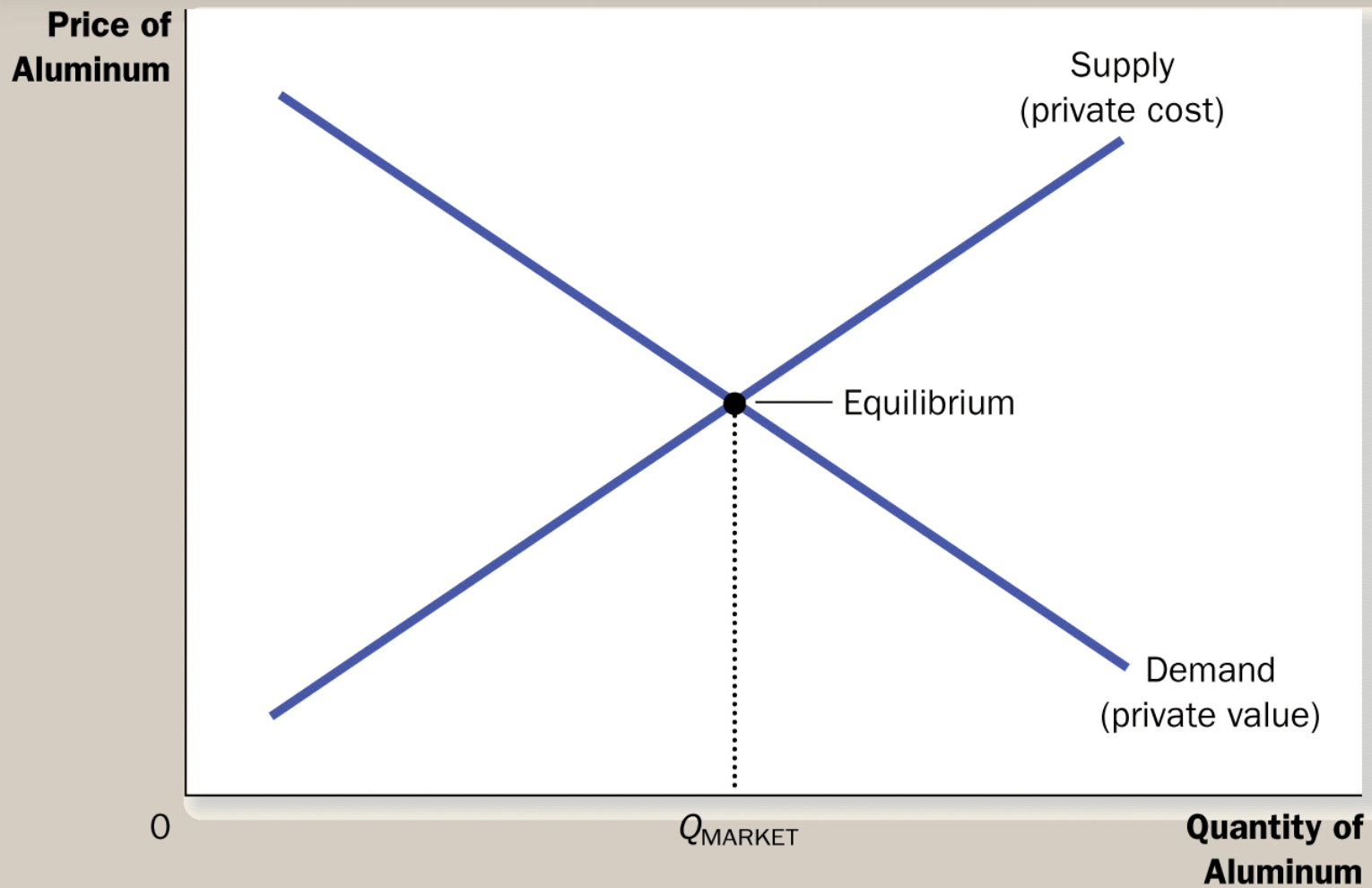


Figure 2 Pollution and the Social Optimum

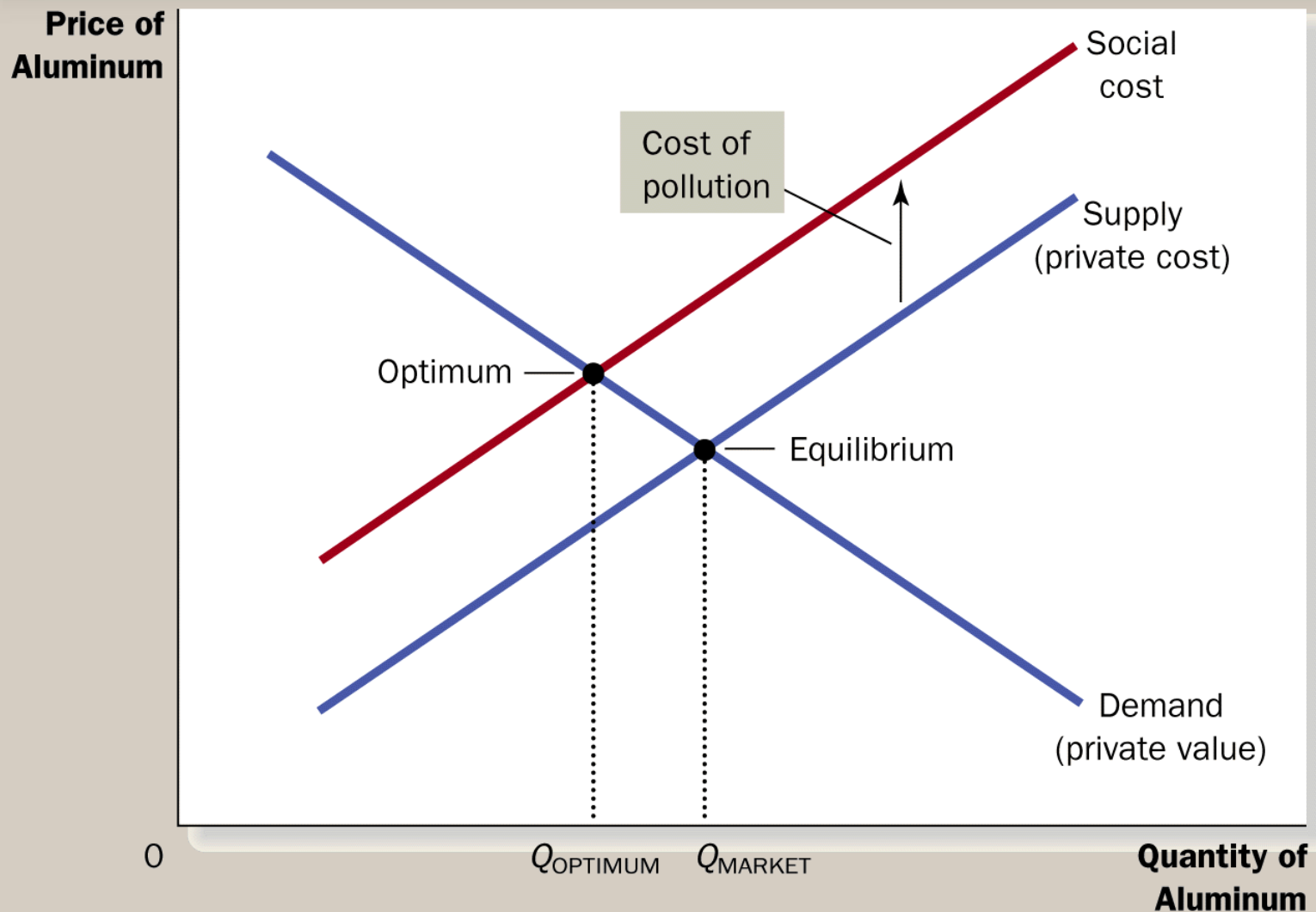


Figure 3 Education and the Social Optimum

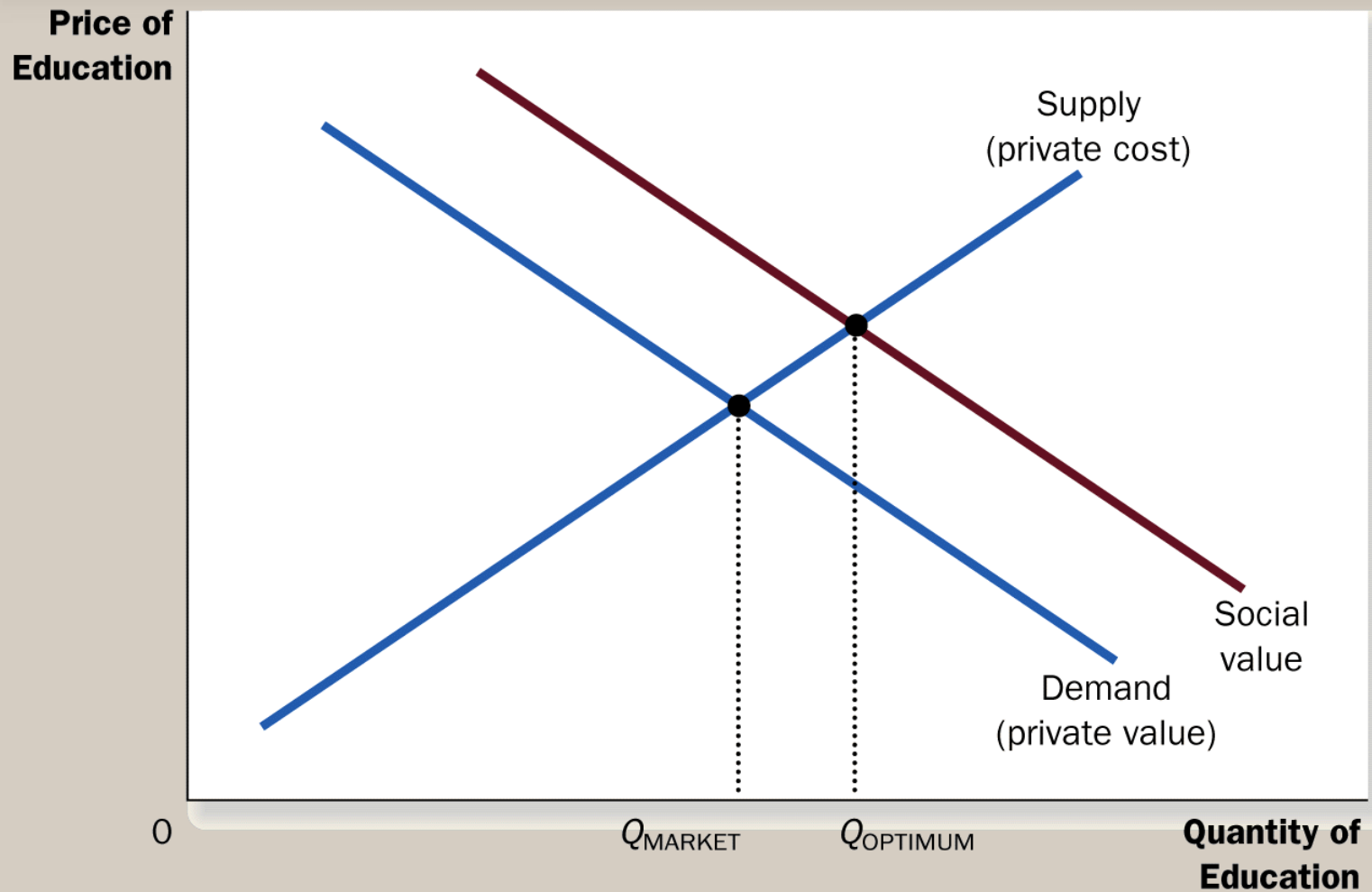
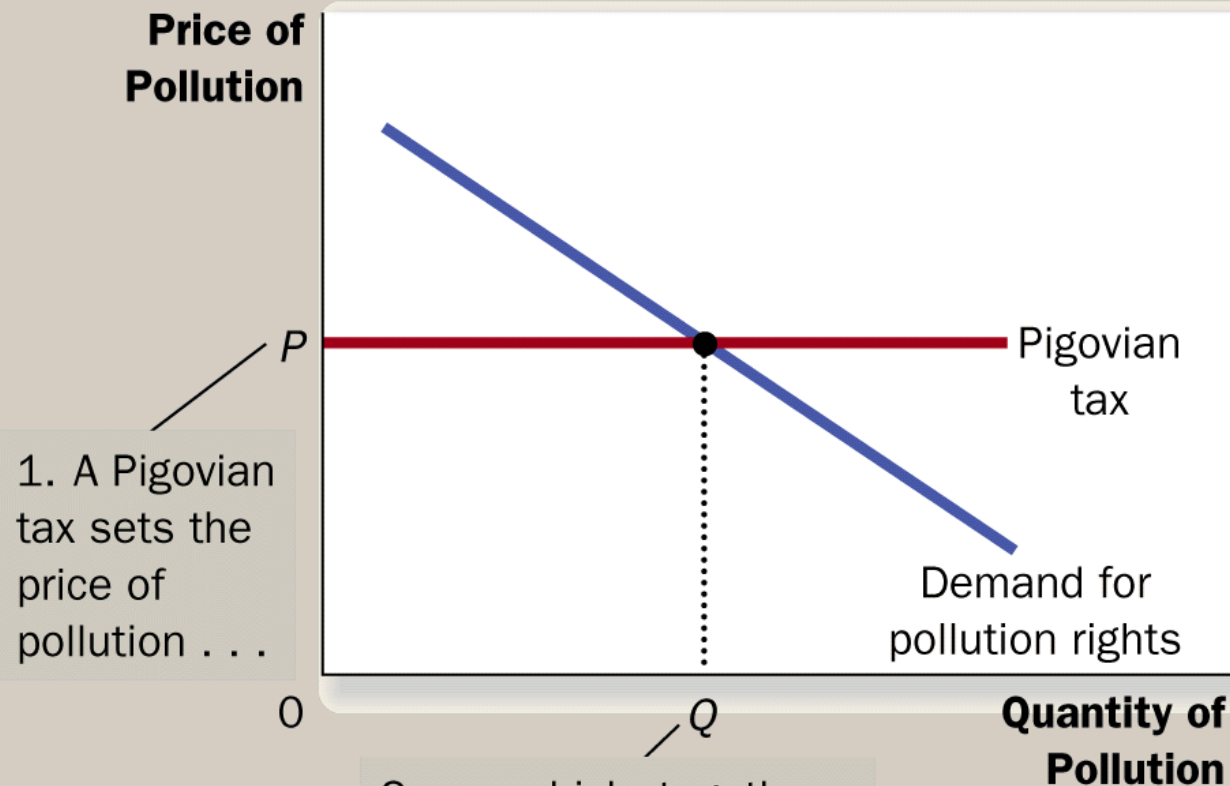


Figure 4a The Equivalence of Pigovian Taxes and Pollution Permits

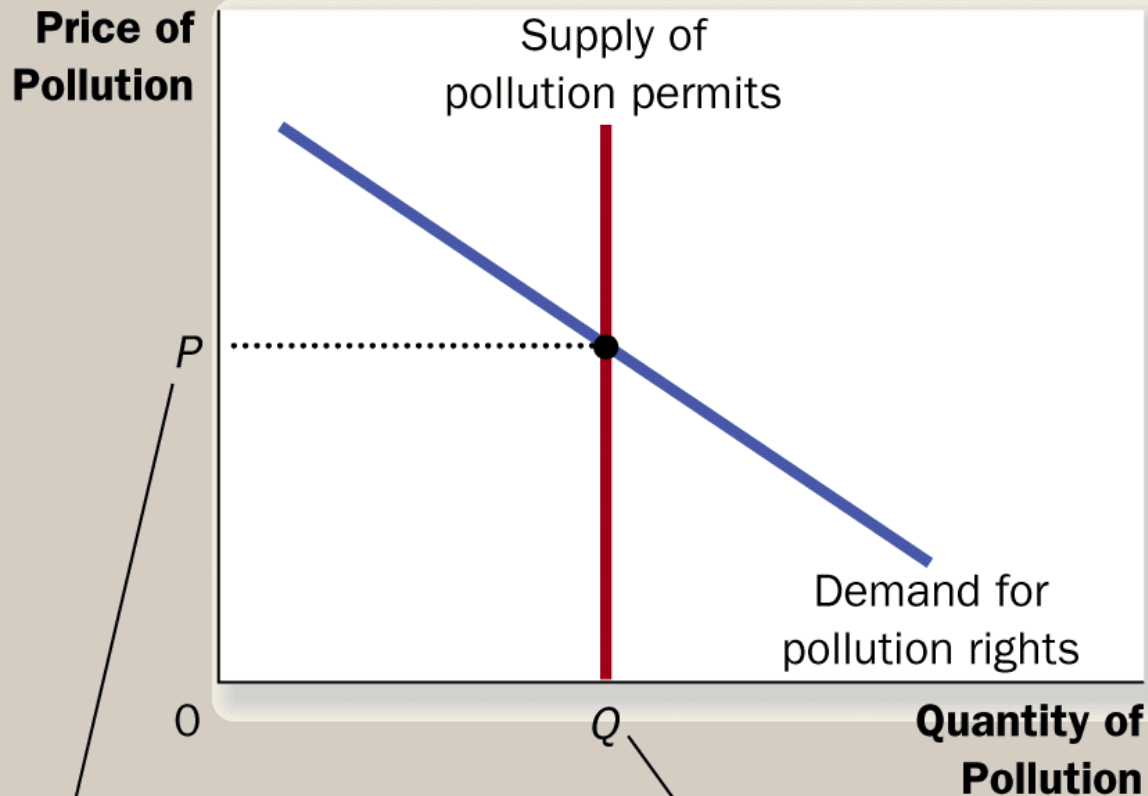
(a) Pigovian Tax



2. . . which, together with the demand curve, determines the quantity of pollution.

Figure 4b The Equivalence of Pigovian Taxes and Pollution Permits

(b) Pollution Permits



2. . . . which, together with the demand curve, determines the price of pollution.

1. Pollution permits set the quantity of pollution . . .