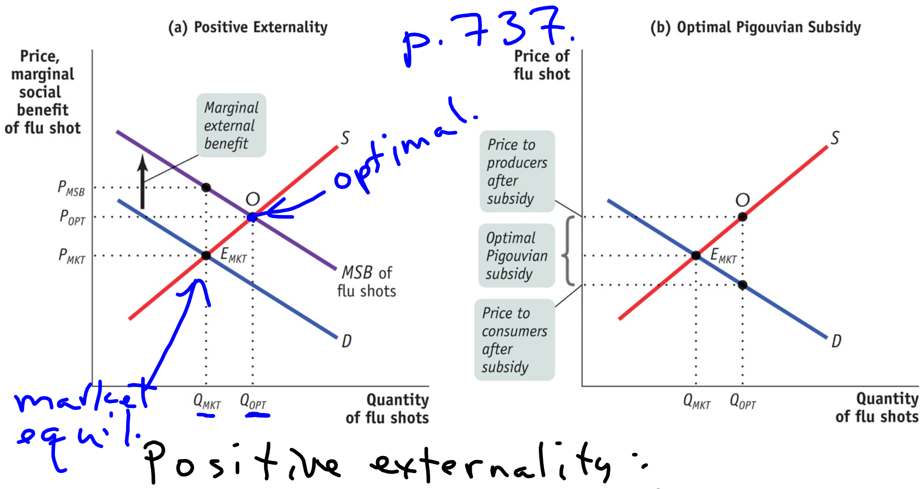
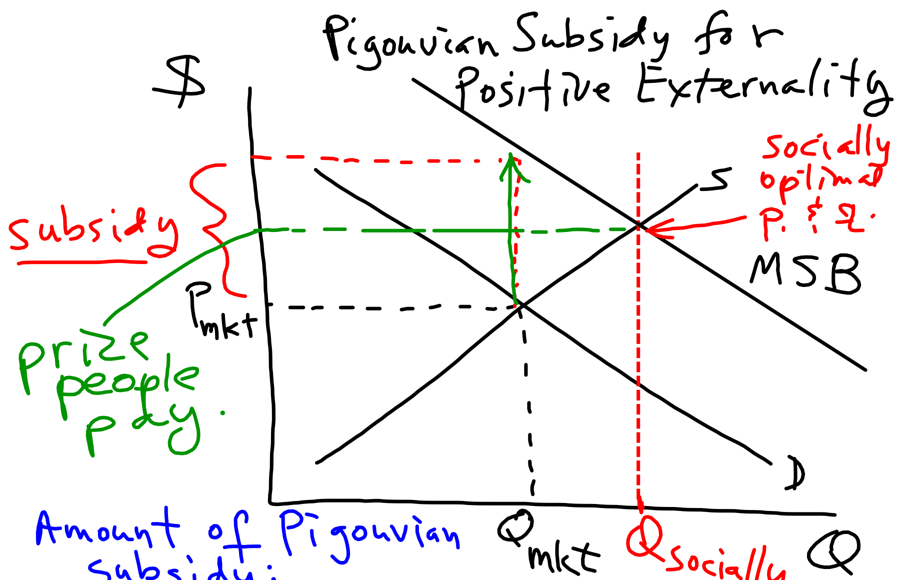


Positive externality:

- external benefits not paid for
- free market results in less than the socially optimal quantity.



Amount of Pigouvian subsidy: raise D curve so that new equilibrium occurs @ socially optimal quantity.

subsidy: money paid to consumers or producers for transactions that government wants to encourage.

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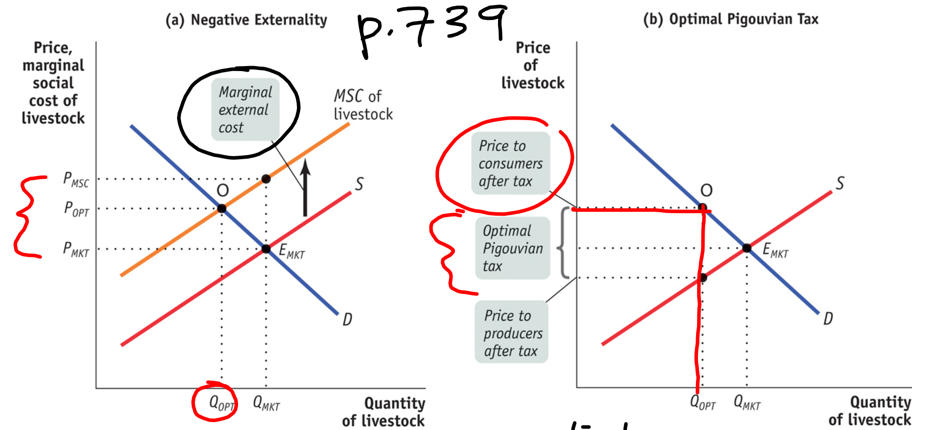
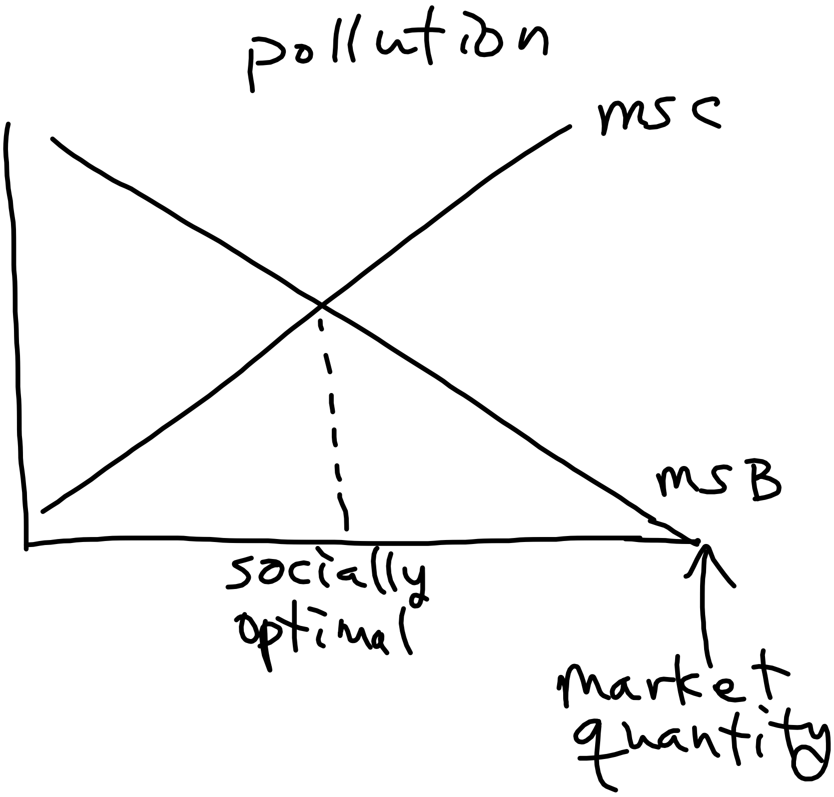


negative externality

- has external costs that are not reimbursed
- free market produces more than the optimal amount
  socially.



	Rival in consumption	Nonrival in consumption
Excludable	**Private goods** • Wheat • Bathroom fixtures	**Artificially scarce goods** • Pay-per-view movies • Computer software
Non-excludable	**Common resources** • Clean water • Biodiversity	**Public goods** • Public sanitation • National defense