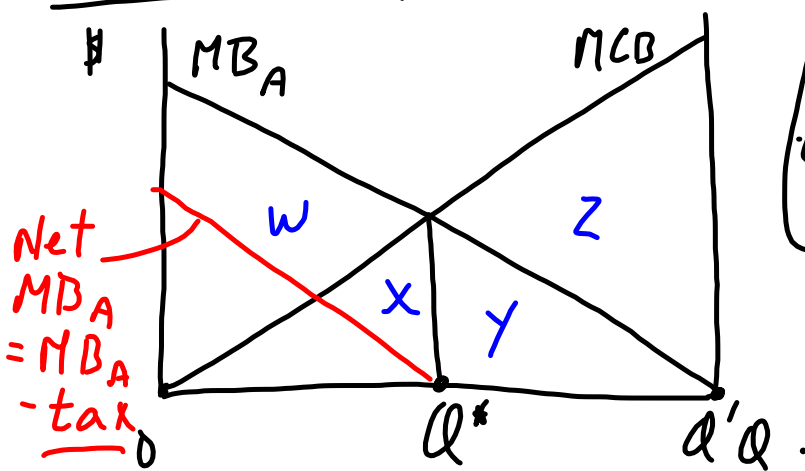


Chapter 5. Q 11 + 13

- property rights - unable to charge price for use of resource
- negative (imposing cost) too much of activity.
- positive (benefit) - too little of activity

Ronald Coase - 1960 -



- assumption
- Negative effect correlated with output activity
- quantity

MB_A - private return
 MC_B - external cost

- If A on own -
 A choose Q' - WXY

If B has right to prevent A production

Now B avoids XYZ
 B demands $X+E$

$E > 0$ | A right
 A accept from B $Y+E$ to cut output to Q^*

Coase Bargain solution

- complex if parties large in number
 ("transaction cost")

- effort -
 - enforcement } free riding.

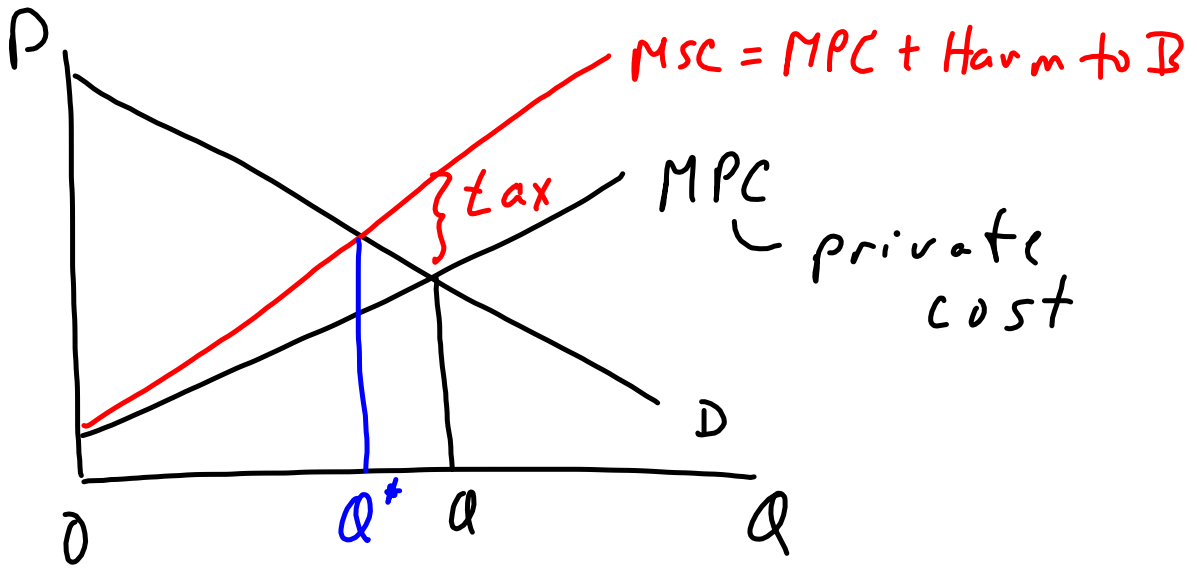
- Coase result \rightarrow benchmark

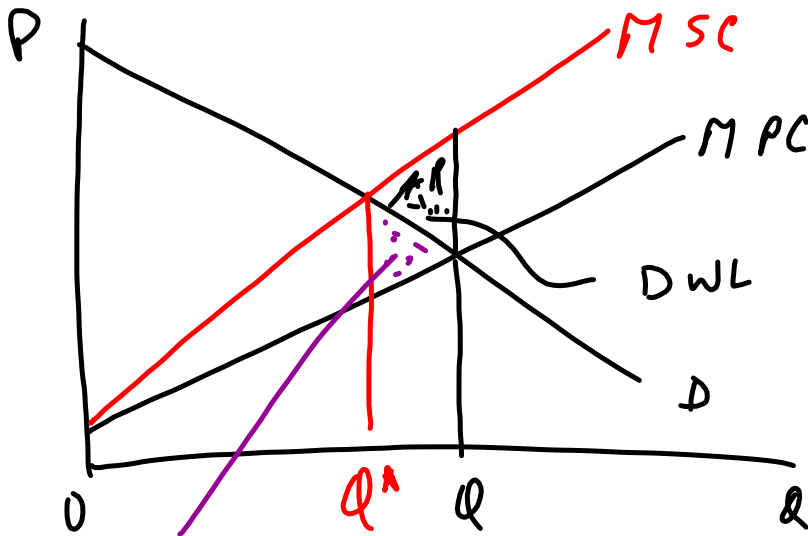
- tax A set tax at MC_B at Q^*

we get $MB_A - \text{harm to B}$

net $MB_A = 0$ at Q^*

tax Pigouvian Tax - A.C. Pigou



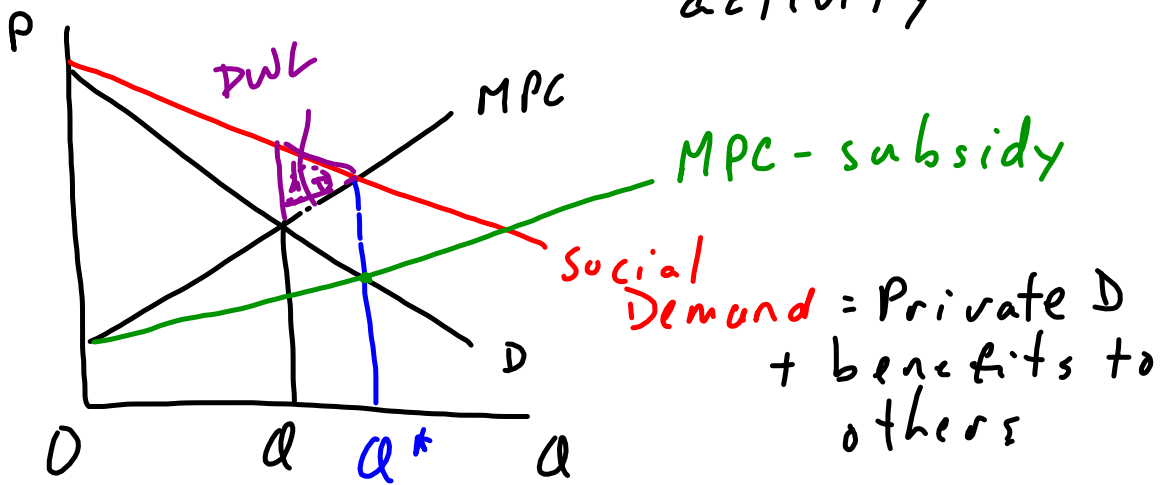


corrective
tax -
reduce
externalities

not
DWL

$MSC > MSB$ (Demand WTP)

Positive externalities - too little activity



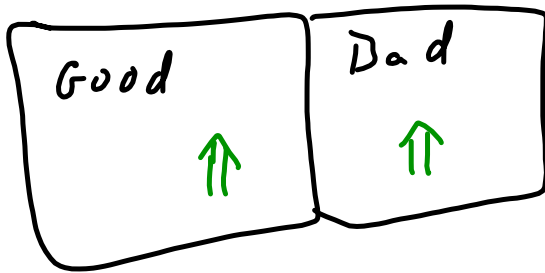
- examples → R & D
- education
- charitable contrib.
- environmental

Valuing externalities . In state vs
 out tuition.
 -beneficial. { - education K-12 quality
 - environmental amenity
 ↙ non-priced activity
 - quantity value → complementary
 good → price observed
 - housing market - checks/balances
financing.

Hedonic pricing

$$P_H = P_H(\text{structural, view, } \underline{\text{air quality}}, \text{noisy, } \underline{\text{schools}})$$

coef. on characteristics - values



$(P_g - P_B) \rightarrow$ value of schools

Income distribution - welfare (TANF) .

- food stamps
- "section 8" housing
- school lunches

$$U_A = U_A(I_A, C_B)$$

C_B increases A's utility

interdependent utility

- specific egalitarianism *

Why not $\$ \rightarrow B$?

"paternalistic"