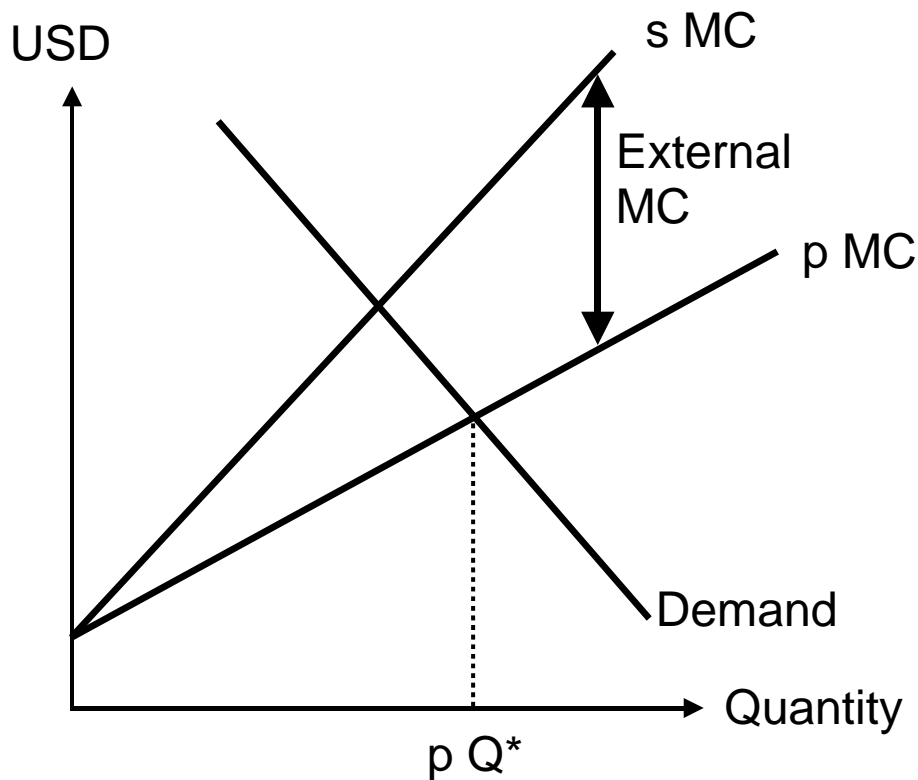


## Externality and tax (E10)

- ⇒ The following figure shows a market in which external costs (negative externality, for example pollution) are generated by production. To internalize these costs, a per unit-tax is to be levied. How high must the tax be in order to transfer the external costs to the producers?

Market with external costs



MC = Marginal cost  
p = private  
s = social  
 $Q^*$  = Optimal quantity

Click to get the answer!