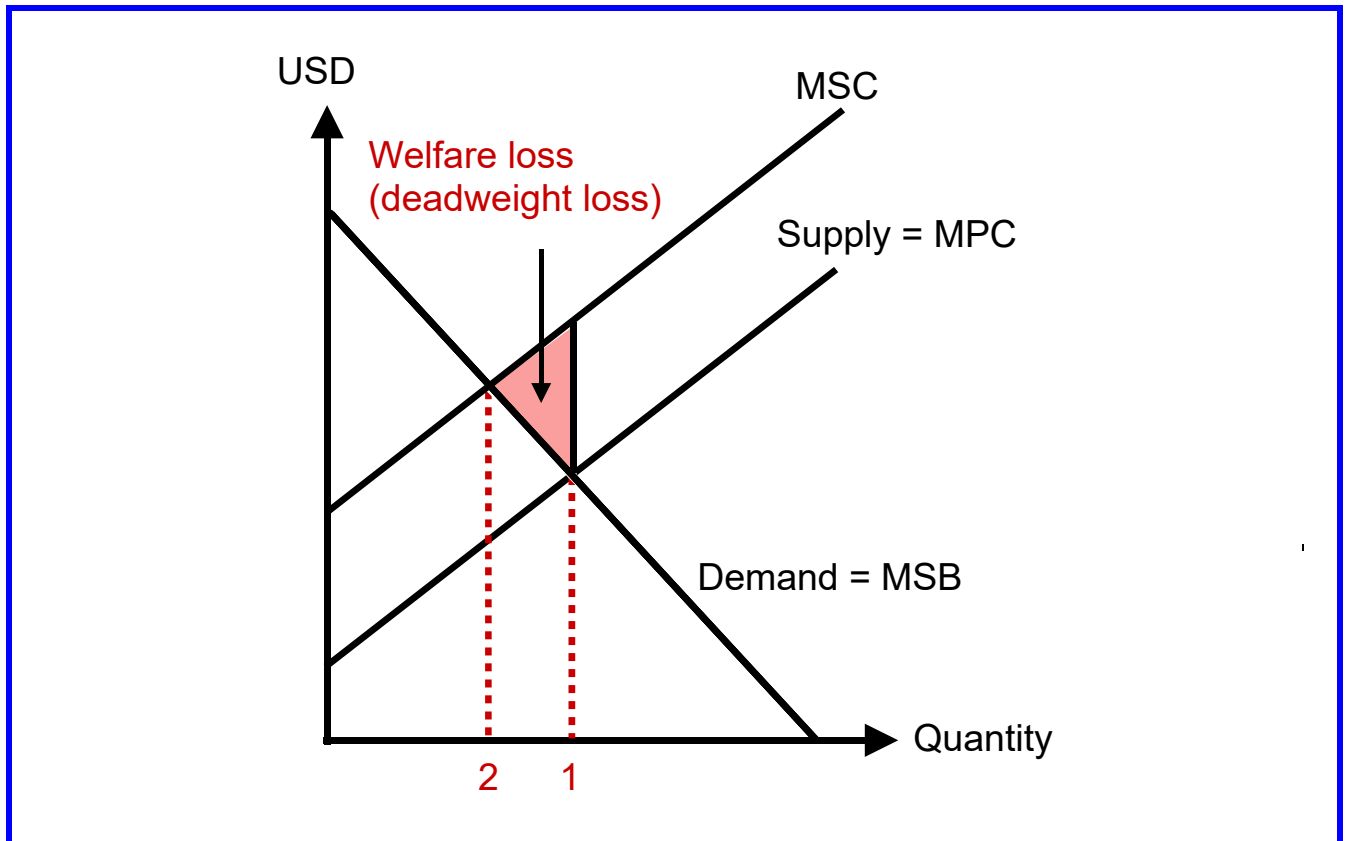


Welfare loss of an externality

It is a **negative externality in production** (e.g. pollution of a river).



Welfare loss

Between quantities 1 and 2, the marginal social costs exceed the marginal social benefits. The red triangle therefore represents the **welfare loss**.

Abbreviations:

MSC	Marginal social costs
MPC	Marginal private costs
MSB	Marginal social benefits