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Question 6 (Answer: **A**)

- With a negative production externality, marginal social cost lies above marginal private cost.
- The market produces at Q_1 where MPC meets demand, but the optimum is at Q_2 where MSC meets it.
- The welfare loss is the triangle between MSC and MPB over the over-produced output.

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Question 3 (Answer: **C**)

- Marginal external cost is the vertical gap between marginal social cost and marginal private cost.
- The free market equilibrium is where marginal private cost meets marginal private benefit.
- So measure the MSC–MPC gap *at that output*, not at the social optimum.

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Question 4 (Answer: **B**)

- A negative externality puts marginal social cost above marginal private cost.
- A positive externality puts marginal social benefit above marginal private benefit.
- So read which pair of curves diverges, and in which direction, to identify the type.