# 6 Externalities – Part 1 — Answers

## Answers

Work through these after you have tried the questions yourself.

**2.1** a cost or benefit that falls on a third party who is not part of the transaction.
**2.2** negative: pollution (or noise); positive: vaccination (or education).
**2.3** it over-produces.
**2.4** a tax of $4 per unit (equal to the pollution cost).
**2.5** a subsidy.