

3 Tasks: each student in the group must do the 3 tasks below-see page 2.

BOX A Externalities diagrams

1. Negative externalities of production
2. Negative externalities of consumption
3. Positive externalities of production
4. Positive externalities of consumption

4 Diagrams for market failure externalities: using the 'blue box'

Instructions to be given to group: all 4 diagrams must be discussed in your group discussion

B: Key Concepts: connect to your chosen diagram

1. scarcity,
2. choice,
3. efficiency,
4. equity,
5. economic well-being,
6. sustainability,
7. change, (long run vs short run)
8. interdependence,
9. intervention

Task 1: (15 -20 minutes)

1. To start: Each student should write a brief explanation of externalities – what are 'externalities' and why is it a market failure?
2. Give students 5 minutes to study the **Four externalities** diagrams that they would use to discuss market failure and then ask for any questions. Use Webnote 289 for this.
3. **Assign** each student to draw **ONE** of the 4 diagrams in BOX A (above) with complete labels. Draw the diagram from memory. Better if each student does a different diagram. (Some students may draw a second diagram if time allows.) Students must draw diagram large enough for all members of group to see and understand.
4. **Now show the students the 4 diagrams so they can make any corrections to their diagram.**
5. **Any Questions? Any problems? Are the student diagrams 100% accurate/complete?**

Task 2-Box A: (20 minutes)

1. **Tutor explains the 'blue box' using webnote 288.**
2. **Assign** each student to draw **ONE** of the 4 diagrams in BOX A (above) with complete labels. Not the same diagram as drawn in Task 1. Draw the diagram from memory using your understanding of the 4 steps outlined in the 'blue box'. Some students may draw a second diagram if time allows. Draw diagram large enough for all members of group to see and understand.
3. Each student should then present **ONE** diagram to the group.
 - Each student must identify the area of welfare loss
 - Each student must identify why there is a market failure referring to exact points on their diagram e.g. 'under' or 'over' the social optimum? Consumption or production externality?

Task 3-Box B: (10 minutes) (each student should feedback to group)

Complete the two tasks below and each student presents briefly to the group:

1. Each student should then (using their diagram from Task 2) to show a connection between their diagram and **ONE key concept** outlined in Box B (above). E.g. **Intervention**: what solution will government bring to the externality?
2. Group should briefly discuss how the externality diagram they have drawn can be applied to a **real-world example**. (briefly highlight the problem and the solution to the externality)