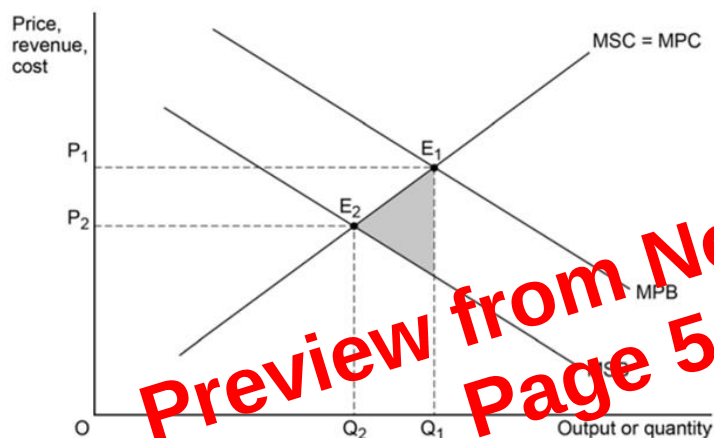


Negative externalities on consumption

Example:

Where the consumption of a demerit good leads to adverse consequences for third parties, eg smoking.

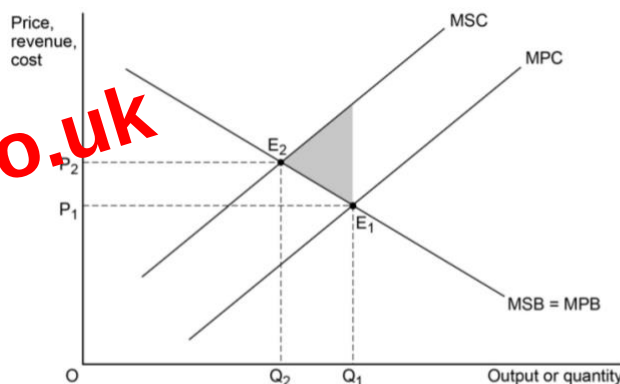


The shaded area illustrates the 'loss' of welfare or deadweight welfare loss (DWL), which exists at the free market output, Q_1 (where $MPC = MPB$). When consumption takes place at the socially optimal output, ie where $MSB = MSC$, the DWL is eliminated.

Negative externalities in production

Example:

Pollution generated by a factory that imposes costs on others.

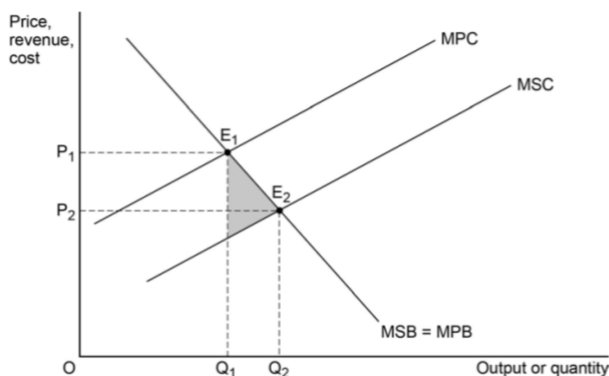


The shaded area illustrates the 'loss' of welfare or deadweight welfare loss (DWL), which exists at the free market output, Q_1 (where $MPC = MPB$). The socially optimum output is Q_2 (where $MSC = MSB$). At outputs between Q_1 and Q_2 , the MSC is greater than MSB and hence there is a net welfare loss on each of these items. Social welfare would be higher if these items weren't produced and resources were reallocated to producing other goods and services. When production takes place at the socially optimal output, ie where $MSB = MSC$, the DWL is eliminated.

Positive externalities in production

Example:

When producing goods and services, companies may develop new technologies that benefit other companies, leading to lower costs for other firms. These spillover effects are not taken into account by the firms who develop the new technologies.

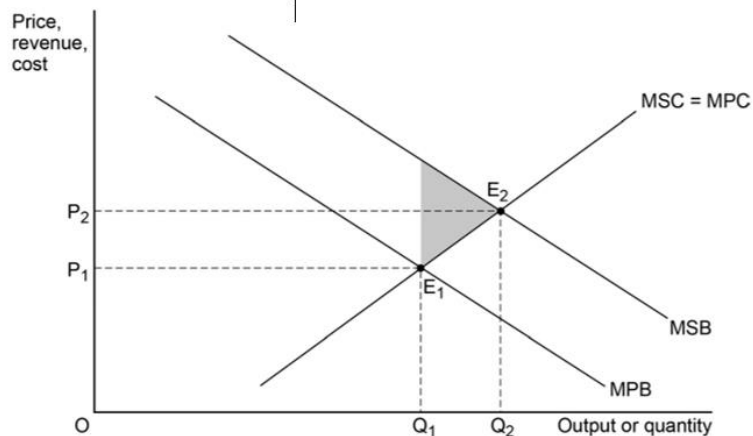


The shaded area illustrates the 'loss' of welfare or deadweight welfare loss (DWL), which exists at the free market output, Q_1 (where $MPC = MPB$). When production takes place at the socially optimal output, ie where $MSB = MSC$, the DWL is eliminated. This is sometimes referred to as a 'welfare gain'. Increasing output from Q_1 to Q_2 increases social welfare because the MSB derived from consuming each of these items is greater than the MSC .

Positive externalities in consumption

Example

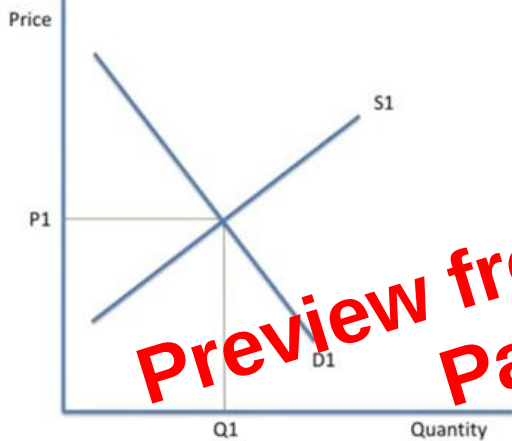
Where the consumption of a merit good generates benefits for third parties, eg vaccinations



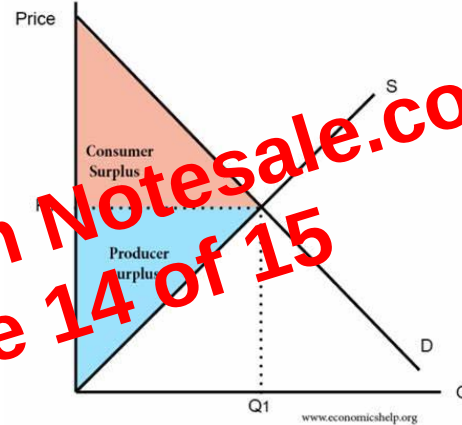
The shaded area illustrates the 'loss' of welfare or deadweight welfare loss (DWL), which exists at the free market output, Q_1 (where $MPC = MPB$). When consumption takes place at the socially optimal output, ie where $MSB = MSC$, the DWL is eliminated. This is sometimes referred to as a welfare gain.

Other diagrams

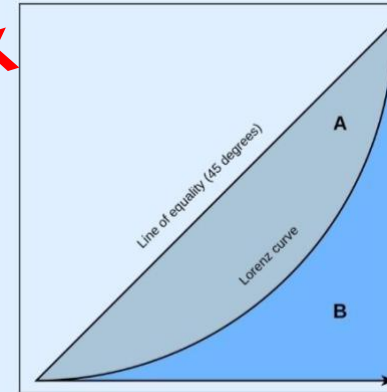
Supply and demand



Consumer and producer surplus



The Lorenz curve



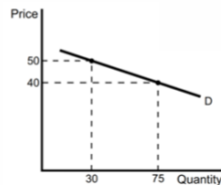
The Lorenz Curve

A graphical representation to measure inequality within a population. It provides a visual depiction of the distribution of income, showing the cumulative percentage of total income received.

PED

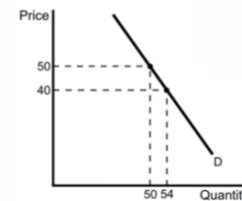
Relatively elastic graph

- A price elastic good is very responsive to a change in price. In other words, the change in price leads to an even bigger change in demand. The numerical value for PED is >1 .



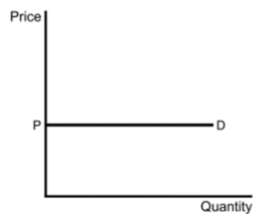
Relatively inelastic graph

- A price inelastic good has a demand that is relatively unresponsive to a change in price. PED is <1 .



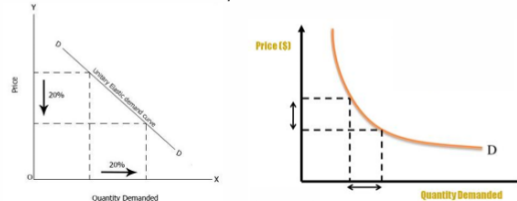
Perfectly elastic graph

- A perfectly elastic good has a demand which falls to zero when price changes. PED = infinity.



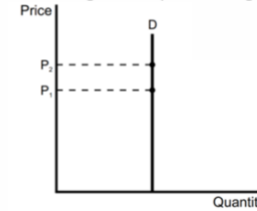
Unitary elastic graph

- A unitary elastic good has a change in demand which is equal to the change in price. For example, if price goes down 20%, demand will increase by 20%. PED = 1.

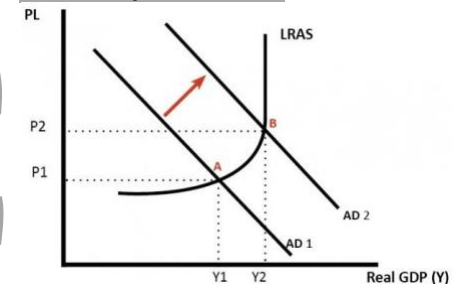


Perfectly inelastic graph

- A perfectly inelastic good has a demand which does not change when price changes. PED = 0.



Demand-pull inflation



Cost push inflation

