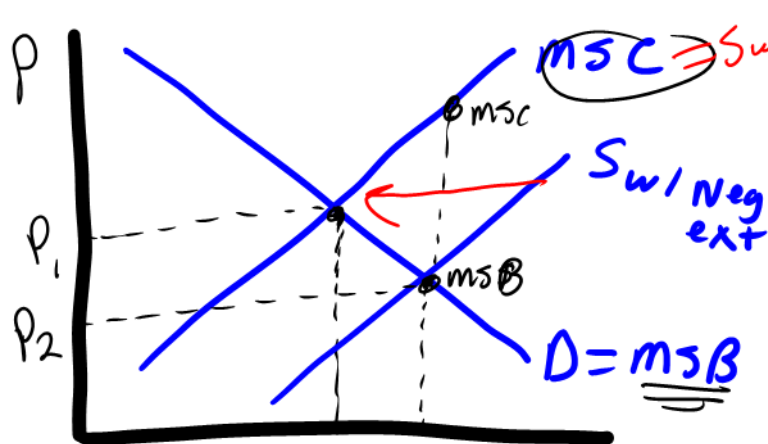




MSC  $\Rightarrow$  Sw<sup>th</sup> tax

Why is the S with Neg Ext to the right of the MSC?

Firms AVOID some cost

Costs to firms  $\downarrow$

Lesson 3b

Costs  $\downarrow \Rightarrow S \uparrow$  (Right)

Govt

Goal: achieve Alloc EFF ( $Q_1$ )

$\downarrow Q$

Tools:  $\uparrow Tax \Rightarrow costs \uparrow \Rightarrow S \downarrow$   
Left

- what we want  $Q_1$  what we get  $Q_2$
- MSB = MSC  $Q_1 = Q_0$  what we get  $Q_2$
- Alloc EFF  $Q$  profit max  $Q$
- $Q$  we get  $MSB < MSC$
- with tax too much
- Overall alloc of res