P.p1 full account the social cost and benefits

Art & Culture, Music

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p3 {margin: 0. 0px 0. 0px 10. 0px 0. 0px; font: 12. 0px ‘ Times New Roman’; -webkit-text-stroke: #000000; min-height: 15. 0px} span.

s1 {font-kerning: none} NEGATIVE EXTERNALITIES AND MARKET FAILUREIntroductionExternalities are third-party effects that occur due to product and service production or consumption of that does not offer full compensation (Buchanan, James 1962). This element becomes a cause of market failure if the price mechanism fails to take into full account the social cost and benefits in the process of production and consumption. Generally, externalities have a diverse relationship that exists between the social and private cost incurred by those affected in the process of production. In defining social costs, we include external impacts on cost such as pollution on the environment. Welfare Losses that Occur from Negative ExternalitiesApparently, the social cost becomes greater than the private marginal cost in the presence of negative externalities since to some extent, the impact on the society becomes greater than the cost incurred during private production and supply of the product that is in focus.

Most producers have the intention of maximising profits in their businesses while showing less regard for the social impact their production process has extensively. Such kinds of producers will therefore at many occasions only take into consideration their private costs and benefits without knowledge of the cost and benefits it has on the entire public. According to Laffont (2008), this should never be the case since at this point; such a producer should also consider the impact he or she has on the society; whether positive or negative. In the long run, the optimum private output becomes larger than the social level of production. The assumption here is therefore the fact that the producer is only focused at personal and private gains since he or she does not consider the social impact of the production process on the entire society. Such a particular case of failing to consider the impacts of negative externalities can be described as an example of a market failure.

On the other hand, consumers can also be causes of negative externalities during the process of product purchase and consumption. One major example is the amount of pollution caused by gas emission by automobiles which have a long lasting impact on the atmosphere. Furthermore, after the purchase of particular goods such as packed snacks and drinks, consumers often tend to litter the environment and fail to make full compensation for the menace. There also is a case of sound pollution in the process of using loud music stereos for example in cars and at in house residential areas. From an overall perspective, there is minimum compensation to suit such kind of misappropriations. Consumption of particular products also has a long term and gradual impact on the environmental set up of the society.

This is notwithstanding the fact that these consumers already have made their compensation by purchasing the product but then there is little to show their compensation towards the environment during consumption (Stern, Nicholas, 2006). Public property is also vandalised during the process of consumer interaction such as dumping of bottles into rivers in addition to criminal acts that are hardly accounted for. From the above cases, there is little social benefit attained during the process of customer consumption as compared to the private benefits enjoyed by the producer. In other words, the process of consumption becomes greater than the general social benefit enjoyed by the rest of the society. Without legal intervention, such kind of product are more likely to cost less than they should not forgetting that the negative externalities are never fully accounted for. Additionally, there is a long lasting loss on the welfare of the economy affected.

Generally, the process of production will often at times have an unaccounted cost on the third party that is not in any way involved in the processes of activity, transaction or even the exchange. Since the external impacts are less likely to be included in the overall market cost, inefficiency is more likely to arise. This therefore means that the market prices are less likely to account for all the costs incurred including that of the third party not involved. Most production companies have had gradual impacts on their neighbourhoods and even though the residents can take the companies to court for health and environmental deterioration, at times it becomes difficult to prove that the companies are responsible for their problems. And since the production costs are more likely to be understated, the emerging inefficiencies are more likely to make the companies sell their particular products at a diminished cost since they do not account for the impacts their manufacturing processes have on the external third party. ConclusionExternalities are the impacts the production and sales processes have on a third party that is not in any way involved; commonly referred to as spill over effects.

These factors generally have a long-range impact on other parties that are in no way related to the sole decision makers. In a free market, there is more likely to be a market failure resulting due to the failure to fully account for the external costs incurred. This means that without proper intervention, some companies are more likely to cause market inefficiency since they produce excess of their goods and at understated prices. An example is in a free market whereby it is believed that smoking is fully paid for by the smoker but noticing the eventual impacts, the government steps in to create policies that regulate the habit of smoking.

Negative externalities mainly occur due to the fact that producers often look at their internal costs without consideration of the external impacts on the society and environment as a whole. GOVERNMENT INTERVENTION FOR NEGATIVE EXTERNALITIESIntroductionIn most cases, individuals involved in the process of production are more likely to only look at their private costs and benefits and are therefore more inclined to taking part in activities that that cause more negative than positive social impacts. However, when an activity has both positive and negative impacts, private as well as social wellbeing are more likely to coincide despite the fact that one is more or less likely to offset the other. In the presence of externalities, private pursuit of self-interest hardly results in the maximisation of social welfare. In such an occurrence, market efficiency is more likely to occur and therefore proper rearrangements are important in order to benefit a portion of the population without harming the rest. With this element therefore, there exists an economic process in which a form of government intervention steps in markets that contain specific externalities.

The basic form of government intervention is to make individuals accountable for the decisions they make such that they are forced to internalise the externalities. Government Correctional InterventionGenerally, most externalities are caused by the fact that various producers do not take into account the cost and impacts they have on non-participating third parties. This means that efficiency is caused since there are more chances to overproduce products at under-priced rates. This demands the urgent intervention by government so as to curb the growth of negative externalities and one major way of doing this is by imposing taxes on the makers of negative externalities.

Most commonly, this is referred to as making the polluter pay through the introduction of Pigovian taxes in which a tax is imposed by the government which is of equal measure to that of the negative externality. The resulting impact of this taxation is that the market outcome would be cut down to efficient amounts. Eventually, this kind of taxation increases government revenue and thereby cuts down the amount of tax imposed by government on other sectors of the economy. The justification of Pigovian taxes is that they help increase market efficiency by reducing the gap that exits between marginal social and private costs (Barthold, Thomas A., 1994). However still, there are arguments that are against the imposition Pigovian taxes for example the fact that the taxes do not fully account for the entire process involved in the creation of externalities.

Nye, John (2008) opine than in other words, the tax only looks at the amount of externalities produced rather than the process and the impacts. Furthermore, it is argued that the Pigovian tax hardly takes into account the elements of private property such that one firm can be taxed more or similar to another even though the other firm produces more externalities (Barnett & Bruce, 2005). All in all, the government's duty is to defend the rights and welfare of its citizens. Therefore, the government ought to pass laws and regulations that govern the problems of pollution as well as environmental decay. Such kind of laws can at times be of a command and control setting for example provision of pollution permits as well as creation of pricing reforms with regard for the environment.

Conclusion In the pursuit of private benefits, individuals are more likely to pursue activities with negative externalities than those with positive social externalities. This means that when in excessive pursuit for personal and private goals, there is hardly a possibility to maximise the welfare of the society at large. Such a setting creates extensive market inefficiency and therefore, there arises a need for the government to step in and create a platform that ensures that a portion of the population develops without an automatic impact of causing harm in the other. Government intervention therefore forces the creators of externalities to internalise the externalities by taking into account and giving compensation for the impacts they have on the society as a whole.