Questions based on “Shell Settles Air Pollution Accusations”

1. The Shell plant discussed in the plant paid a settlement because it had emitted 5 million pounds of pollution as “upset emissions.” Why do you think the plant was emitting so much pollution?

2. In terms of the long-term equilibrium, why will having the agreement of Shell be important in getting less resistance from the petrochemical industry?

3. What do you think the Sierra Club’s representative means when he says, “We urge other oil and chemical companies in the region to take note of Shell’s willingness to work constructively with us.”

Questions based on the Berck and Helfand (B&H) chapter 11

4. There are different types of costs associated with driving, private costs that are borne by the driver and external costs that are paid by society. What are the estimated values for these two types of costs in terms of cents per mile?

5. What is the authors’ definition of an externality?

6. In `Figure 11.1, are external costs captured by the supply curve, the demand curve or neither?
7. In Figure 11.3, are external costs captured by the supply curve, the demand curve or neither?

8. Would a move to full-cost pricing lead to a Pareto improvement?

9. What do economists mean (in this chapter) by “an efficient allocation”?  

10. What is a deadweight loss and why does it arise when there is an externality?