What happens when Exclusivity fails?

What is an externality?

- When the benefits or costs associated with the ownership and/or use of an asset do not accrue only to the owner of that asset.
- In other words, exclusivity fails
A negative externality

$EC = MC + EC$

$MC_s$

$P_M$

$D_P$

$Q_M$

$MC_p$

$P_{**}$

$PS$

$CS$

$Total External Costs$

$MC_s$

$MC_p$

$P_M$

$D_P$

$Q_M$

$Q_s Q_M$

$MC_s$

$Welfare Cost$

$MC_p$

$P_M$

$D_P$

$Q_M$