

## Unit 5, Lesson 24

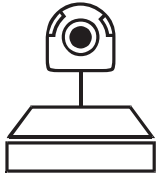
### Visual 1

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## THE VANISHING WILDLIFE MYSTERY

### **MANY ACTIONS ARE TAKEN TO PROTECT ENDANGERED PLANTS AND ANIMALS.**

- Powerful laws such as the Endangered Species Act (ESA) have been in operation since 1973.
- The ESA allows government officials to deny landowners the use of their property if an endangered species is found to be present.
- Hundreds of plants and animals remain on the endangered list despite 30 years of legal efforts to help them.
- *Why has the Endangered Species Act failed to protect more critters?*



## Unit 5, Lesson 24

### Visual 2

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#### TRUE/FALSE CLUES

- A. The government officials who enforce the Endangered Species Act are lazy.

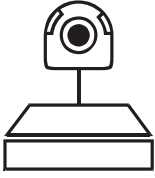
True or False?

- B. Government policies sometimes have unintended consequences.

True or False?

- C. The Endangered Species Act offers incentives that encourage landowners not to cooperate in protecting endangered species.

True or False?



## Unit 5, Lesson 24

### Visual 3

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## EXTERNALITIES AND MARKET FAILURE

**Externality:** An economic side-effect that occurs when benefits or costs associated with the production or consumption of a good or service affect someone other than the direct producer or consumer of the good or service.

**Negative externalities:** Costs incurred by someone who was not associated with the production or consumption of the good or service.

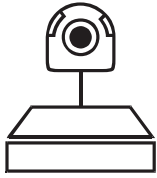
- **Example:** Smedley operates a bustling auto body shop out of his garage in a quiet residential neighborhood; the clutter and traffic generated by Smedley's business detract from the value of his neighbors' property.

**Positive externalities:** Benefits provided to someone who was not associated with the production or consumption of the good or service.

- **Example:** Sigafos paints her house and completes an attractive landscaping job on her lawn; these improvements increase the value of nearby homes.

**Market failure:** A market fails when:

- Too much of a good or service is produced, in part because the producer does not bear the costs of the negative externalities. Factories that pollute air are an example.
- Not enough of a good or service is produced, in part because the positive externalities are not adequately reflected in prices charged for that good or service. Education is an example.



## Unit 5, Lesson 24

### Visual 4

## WAYS OF CORRECTING NEGATIVE EXTERNALITIES THAT AFFECT THE ENVIRONMENT

### 1. Assign Property Rights

Most problems involving externalities are caused by a failure to assign ownership rights. No one owns the oceans, air, or endangered species, so no one has an owner's incentive to protect them.

Government can create several forms of ownership — e.g.:

- Individual tradable quotas
- Trading pollution permits
- Ownership of whales and other endangered animals
- Land ownership

### 2. Impose Direct Controls

Government can pass legislation demanding that businesses or individuals act in certain ways or face fines or imprisonment — e.g.:

- Pollution charges are taxes placed on polluters. For example, the government has placed a tax on chlorofluoro carbons (CFCs).
- Emission standards imposed on auto manufactures.
- Rules regarding curbside recycling.
- Requirements that factories use certain technology to reduce air emissions.