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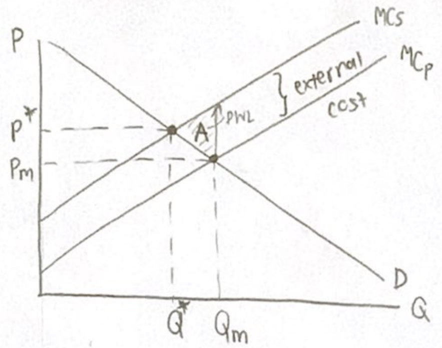

i) Case A : The pollution of plastic production leads to the environmental problems from externalities. (The negative, external cost) Causing the air pollutions and health risks to people living in Dreamland village.

In case A, the inefficiency arise because the factory did not concern about the effect of externalities, as these external cost will increase the social marginal cost causing the DWL in area A.

case B ; There will be negative, external cost because the CO_2 emissions can cause the air pollution and health risk as it is emit higher from 51 million ton to 63 million ton.

ii) case B : use the cap or set a quota at Q^*, so that the CO_2 emission will reduce to a lower level.

ii) case A ; Use the property right, assigned to the Dreamland, if the factory violated the village rights, it need to compensate for all damage costs. This will make the polluter has no incentive to increase the external cost.

iii) Case B : government can put a cap to restrict the production of plastic to Q^* and if anyone violate, they will have a severe punishment i.e. damages fee or jail sentences.

iii) case A : government can put a tax on the plastic pollution and charge their emission pollution to society. (Set tax in high price)